

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

Monday January 4 1988

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China's press leads
consumer rights
battle, Page 2

Australia	292.2	Indonesia	29,300	Portugal	Esc200
Canada	108.15	Japan	153.29	Spain	1,100
France	161.10	South Korea	1,300	Taiwan	1,000
Germany	236.00	Sri Lanka	1,300	Thailand	1,000
Italy	1,200	Singapore	1,300	USA	100
Netherlands	1,200	Taiwan	1,300	UK	100
Sweden	1,200	USA	100		
Switzerland	1,200				
UK	100				
USA	100				

No. 30,428

World News

Business Summary

Saudis to levy income tax on expatriates

Saudi Arabia announced an expatriates-only income tax to become effective this month. The tax will range from 5 per cent to 30 per cent depending on earnings, and some expatriate workers will be exempt. Page 14

Japanese take 48% of chips market

JAPANESE companies claimed 48 per cent of the world semiconductor market in 1987, with Toshiba moving up to second place, behind Nippon Electric. Page 17

Indians sink Tamil boat

At least 21 Tamil rebels were killed when Indian naval boats sank a vessel off the northern Jaffna peninsula, Sri Lankan military officials said.

French authorities expect to approve a...

FRENCH authorities expect to approve a...

Iran 'training' Afghans

Iran was instructing Afghan guerrillas in special schools and giving them practical battle training in the Gulf war, the Soviet newspaper Izvestia said.

European Monetary System...

EUROPEAN Monetary System...

Colombians upset

Colombia said it had never promised the US it would hold reputed drug baron Jorge Luis Ochoa in custody after Washington's attitude about the case offensive.

Request was followed by...

Request was followed by...

Bangladesh demo

Bangladesh police used teargas and truncheons to break up a demonstration in Dhaka by 10,000 protesters urging voters to boycott parliamentary elections planned for February 28.

The chart shows the two...

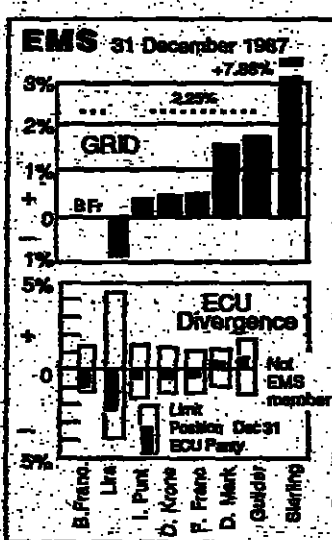
The chart shows the two...

Widow wins job

The widow of Tamil Nadu film star and politician M.G. Ramachandran won a battle to succeed her husband as chief minister of the southern Indian state. She had no experience in politics or administration. Page 5

Philippines shootings

Gunmen wounded the head of a presidential anti-drug task force in the Philippines and killed two of his guards. In separate incidents, three candidates for regional elections this month were killed and six people died in fighting on Mindanao island.



Natal feuds toll

Ten more blacks died in heightened feuding in Natal and a leading black newspaper said the fighting cast a shadow of anarchy over the dream of a post-apartheid South Africa. Page 2

Sanofi wins control of Robins

Sanofi, the French pharmaceutical company controlled by the state-backed ELF-Aquitaine oil group, has emerged as the winner in the battle for control of A.H. Robins, the bankrupt US pharmaceutical concern.

Air crash theory

Turkish officials said sabotage might have caused the crash of a West German Boeing 727 near Izmir in which all 16 people on board were killed.

Sanofi wins control of Robins

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Uruguay rail protest

Railway workers and passengers demonstrated against a Uruguayan Government decision to end all passenger train services.

Sanofi wins control of Robins

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Supplies for Khost

The Afghan Government said a relief convoy reached the town of Khost, besieged for three months by Western-backed rebels.

Sanofi wins control of Robins

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Soviet space plans

The Soviet Union will add extensions to its manned orbiting station Mir this year, conduct space research with France and Poland and send a probe to one of the moons of Mars, according to a senior space official.

Sanofi wins control of Robins

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Defector returns

Former West German army major Bruno Winzer, 75, returned to his homeland almost 28 years after defecting to East Germany.

Sanofi wins control of Robins

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Hong Kong acts to calm reopening of stock exchange

BY DAVID DOOWELL IN HONG KONG

The management of the Hong Kong Stock Exchange has been transferred to a special committee as part of a series of moves aimed at ensuring that trading will not be disrupted when the market reopens this morning following the arrest of Mr Ronald Li, the exchange's former chairman, and two other stock exchange officials.



Ronald Li released on bail

The request was followed by news from the exchange that its general committee was in effect being suspended, with its powers being transferred to a special management committee.

which was unique among the world's main bourses and sat unaccountably with the territory's claim to be a free market - was why share prices fell further when the exchange eventually opened than they had in any other leading market.

Moscow ministries are 'undermining' reforms

BY CATHERINE McILHINNEY IN MOSCOW

GOVERNMENT ministries in Moscow are undermining crucial economic reforms introduced in the Soviet industry, a leading Soviet economist has warned.

Mr Robert Fell, the territory's former Banking Commissioner, has been brought out of retirement to act temporarily as senior chief executive. Headhunters have been appointed to find a full-time professional chief executive.

For local and international stock market operators who after the collapse sought commitments from the Government that operations would be significantly tightened, news of Mr Li's arrest - whether charges are brought or not - will bring comfort that their complaints of slipshod management and idiosyncratic practices are being taken seriously.

Sanofi wins control of Robins

BY PAUL BETTS IN PARIS AND ANATOLE KALETSKY IN NEW YORK

SANOPI, the French pharmaceutical company controlled by the state-backed ELF-Aquitaine oil group, has emerged as the winner in the battle for control of A.H. Robins, the bankrupt US pharmaceutical concern.

There was no indication yesterday of how long the commission investigation would continue, of any charges that might be laid against the three arrested men or of any further possible arrests.

On agriculture he argued that in order to bring changes common sense was required to release the farmer from the pressure of the pyramid of administration, the uselessness of which is now clear to everyone but which provide a job and a cosy existence for people.

Mr Shmelyov's critical warning came after a spate of articles in the Soviet press in the weeks leading up to the introduction of the law which discussed the confusion and doubts assailing the industrial sector.

Israeli air raids on targets in Lebanon kill 19

By Nora Bouquany in Beirut

ISRAELI AIRCRAFT and helicopters attacked Palestinian targets in Lebanon on Saturday night, killing 19 people and wounding at least 14, according to Lebanese police and hospital officials.

The raids appeared to be the long-awaited reprisal for the Palestinian hang-glider attack against an Israeli military camp on November 25 in which six Israeli soldiers died and eight were wounded. Israel had vowed to avenge the attack but, under US pressure did not retaliate immediately.

Israel defied US pressure and served deportation orders on nine Palestinian activists in the occupied West Bank and Gaza Strip. The Israeli attacks targeted Palestinian bases in Druze-controlled hills and coastal villages north-east and south of the port city of Sidon.

Near Sidon, Israeli jets raided guerrilla positions around the Palestinian refugee camp of Ain el Helweh and the Awali junction, only a short distance away from Syrian-manned checkpoints.

The multiple Israeli air raids followed a two-day standoff in Beirut.

The UK Chancellor tells Philip Stephens how he sees 1988 economic prospects

Weak dollar the principal threat

By Philip Stephens in London

THE 'excessive and unprecedented' fall in the value of the dollar poses the main threat to world economic prospects in 1988, but there are no signs of an impending recession, Mr Nigel Lawson, the Chancellor, says today.

In a new year interview with the Financial Times, Mr Lawson says he remains committed to seeking to hold sterling stable against other major currencies, above all against the D-Mark. The informal link with the West German currency established last year is 'what British industry wants, and provides an easily recognised anchor against inflation, he argues.

In a confident assessment of Britain's prospects for 1988, the Chancellor predicts a further year of healthy economic growth and a continuing fall in unemployment, in spite of October's stock market crash.

Q. The world stock market's crash has cast a shadow over economic prospects. Are you confident that Britain's economy will continue to grow fast enough in 1988 to bring further falls in unemployment?

recession. So far as the UK is concerned, the Autumn Statement forecast of 3 per cent growth for the non-oil economy, although well below the likely 1987 outturn, would be a thoroughly healthy performance, achieved only once in the whole of the 1970s, and which we expect to be accompanied by further falls in unemployment. I will, of course, be publishing a further forecast at the time of the Budget.

Q. You have sought to mitigate the impact of the crash through cutting interest rates. Will this continue to be the policy? How determined are you to hold sterling below DM3.00 through intervention and cuts in interest rates?

Q. The 1 1/2 per cent reduction in UK interest rates to which you refer - which is important to recall, followed a 1 per cent increase in August - and the decision to let some of the recent foreign exchange market intervention temporarily to add to domestic liquidity, do not imply any weakening in the Government's commitment to defeat inflation. These steps were needed partly to maintain confidence at a particularly delicate time and partly to offset the tightening in monetary conditions brought about by the fall in the equity market and the rise in the sterling exchange rate.

Q. If the pace of economic growth slows significantly, is there scope for a relaxation of fiscal policy, particularly since public borrowing here is lower than in, say, West Germany?

A. The German economy is currently suffering from a sluggish growth rate, which automatically leads to increased public borrowing unless measures are taken to reduce it - steps which would not be warranted in current circumstances. That is not the case with the British economy, which looks set to grow at a satisfactory pace in 1988. I will, of course, decide the appropriate level of next year's public sector borrowing requirement at the time of the Budget. What the prospects for 1988-89 will be clearer than they are today. But what I can say is that the soundness of our public finances is a

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Overseas	2-3
Companies	15,17
Britain	4,6,8
Companies	24
Currencies	28
Editorial comment	13
Europe	15,17
Int'l. Capital Markets	18-17
Letters	15
Law	14
Management	9
Men and Matters	12
Money Markets	28
Stock Markets - Bourses	28
London	21-23
UK gifts	16
Unit Trusts	19-21
US News	16
Weather	14

THE MONDAY PAGE INTERVIEW

John Lloyd meets Immanuel Jakobovits, British Commonwealth's Chief Rabbi, Page 10

Pakistan: plans to cut through its red tape	3
Justicia: Spycatcher - UK judges bow too willingly	10
Editorial comment: New Year resolutions	12
US economy: at the mercy of investors	12
UK economy: some pleasant surprises ahead	13
Lez: searching for a bear market	14
UK industrial prospects	section III

OVERSEAS NEWS

Israel to expel 9 Palestinians in occupied area

ISRAELI military yesterday defied US pressure and served deportation orders on nine Palestinian activists in the occupied West Bank and Gaza Strip. Security forces were alerted in anticipation of a renewed disturbance after the announcement of the expulsions and after a 25-year-old woman was killed when a border police patrol fired live ammunition against protesters in the village of a-Ram, north of Jerusalem. Two of the soldiers, a company commander and a private, were suspended from duty last night on suspicion of violating regulations governing the use of live rounds. Five of the nine to be deported are from the West Bank and four from Gaza. Most of them have served prison sentences for security offences. Two were released in May 1985, when Israel exchanged 1,500 Arab prisoners for three Israelis captured in the Lebanon war. A military spokesman identified five of the nine as with the mainstream Al Fatah organisation, one with Mr George Habash's Popular Front for the Liberation of Palestine, and three with Muslim fundamentalist groups. None belongs to Mr Ahmed Jibril's Popular Front (General Command), Israel's partner in the 1985 exchange. The Jibril organisation was the main target of an air strike early yesterday on Palestinian bases in southern Lebanon, in retaliation for a hang-glider raid which killed six Israeli soldiers in November. The nine have 36 hours to decide whether to appeal, first to a military panel, then to the Israeli Supreme Court. All are in custody, having been arrested during the December unrest. They are alleged to have incited young Palestinians to fight the occupation, though not all are accused of specific offences in connection with the latest disturbances. A military spokesman told foreign correspondents that deportation was being used as "the most extreme measure after all others had failed." He indicated that unless there was a return to disruptions on the December scale, no-one else would be deported. As a further incentive to the Arab population, Israel yesterday freed 100 of the 1,200 Arab youths detained in the past three weeks, with the promise that more would follow if peace prevailed. The spokesman declined to say where the deportees would be sent. Jordan and Egypt have announced that they will not accept them. The only alternative would be Lebanon. The US, Israel's most powerful ally, had warned Jerusalem not to resort to deportations. Prime Minister Yitzhak Shamir and other ministers replied that Israel alone could decide how to look after its own security. Deportation remained a live option. The Government hopes Washington will acquiesce in the use yesterday of this weapon against hard-core activists. According to the army, 19 Palestinians have been expelled since the present coalition resumed this policy in August 1985. Three more cases are under appeal.

Islamic ministers to discuss Arab unrest

ISLAMIC ministers will discuss the unrest in Israeli-held Arab territories today, and Palestinian sources said yesterday that the Palestine Liberation Organisation would urge full support for Arabs there. Reuter reports from Beirut. "We shall ask for all possible support and help to our brethren in the occupied territories," a PLO official said. The PLO is on the Islamic Conference Organisation's 15-member Jerusalem Committee, which Morocco's King Hassan has summoned to discuss what he called the bloody events in the occupied territories and to adopt "a clear and sound position, without any sectarian or partisan spirit". King Hassan called for an Islamic summit to discuss the violence between Iranian pilgrims and Saudi Arabian security forces in Mecca in July but diplomats say the response was poor. The UN Security Council and the US, Israel's main ally, severely criticised Israeli methods of suppressing what the Arabs have termed the December 9 uprising in the Gaza Strip. 23 Palestinian disturbances which spread to the occupied West Bank. Hundreds of Palestinians were arrested. The Jerusalem Committee was originally due to meet eight days ago but the meeting was postponed at Saudi Arabia's request because the date clashed with a Gulf Co-operation Council summit in Riyadh. Diplomats did not expect Iran and Syria to attend the two-day meeting at foreign ministers level.

Bulgaria may let more ethnic Turks emigrate

A DEAL between the Turkish and Bulgarian governments may mean that some ethnic Turks in Bulgaria may be allowed to join their families in Turkey, Mr Turgut Ozal, the Turkish Prime Minister said. Mr Ozal was speaking at a press conference to mark the return to Turkey of Miss Aysel Ozgur, 16, after an 18-month campaign by the Turkish press. The prime minister said that the Bulgarian authorities had allowed Miss Ozgur, who had been separated from her family for five and a half years, after Turkish television had agreed to halt transmission of a series of programmes about the sufferings of Turkish families in Bulgaria. The plight of the 800,000 ethnic Turkish minority in Bulgaria has been a leading national issue in Turkey since the Bulgarian Government embarked on a forcible Slavisation policy three years ago. All ethnic Turks have been



Donat Cattin behind courtroom bars.

Italian minister's terrorist son freed

BY JOHN WYLES IN ROME. "COMMANDANTE ALBERTO", a former left-wing terrorist leader, self-confessed triple murderer and son of a leading Italian Christian Democrat politician, has quietly returned to society after a comparatively benign seven-year term of imprisonment. The release of 34-year-old Marco Donat Cattin was only confirmed at the weekend although it seems that his best friend in society was declared legally paid just before Christmas. In fact, the handsome, dark-haired, mustachioed former leader of "Prima Linea" appears to have been enjoying nearly full freedom since last May. To some magistrates and observers, the young Cattin has long seemed to enjoy a treatment whose benevolence may not have been totally unanticipated. The fact that his father is Mr Carlo Donat Cattin, the Minister for Health and a faction leader of some importance in the Christian Democracy party, Mr Francesco Cossiga, President of Italy, resigned as prime minister in late 1980 amid allegations that he had warned Donat Cattin Sr of the danger of an arrest warrant for his son. The official line is that the former terrorist's 12 years of imprisonment have been commuted because of his clear dissociation from his past associates and because of the help he provided the authorities in naming and capturing other terrorist leaders. His lawyers have been investigating magistrates and prosecutors that he ever discussed individuals other than those involved in the crimes he committed. These included the murder in January 1979 of the Milanese judge, Mr Emilio Alessandrini, the murder two months later of a student in Turin and also of a Turin barman in July of that year. Donat Cattin was arrested in Paris in December of 1980 after being implicated by another terrorist who had turned state's evidence. After charging sentences totalling 12 years from a number of courts, the young terrorist acquired an extra two months for making love to a young woman in the prison at Alessandrini. Paradoxically, his release coincides with a period of increasingly intense debate about the future of the political institutions which he and his comrades of the so-called anni di piombo (years of lead) were bent on destroying. In his New Year's Eve message, President Cossiga asserted that the country's 40th anniversary last month, needed only an "adjustment".

Gorbachev likely to visit Bonn this year

BY DAVID MARSH IN BONN. MR MIKHAIL GORBACHEV, the Soviet leader, looks likely to visit West Germany this year after the successful trip to Moscow last week by Mr Franz Josef Strauss, the Bavarian Prime Minister. Mr Yuli Kvizinsky, Soviet Ambassador to Bonn, said in a newspaper interview yesterday that a visit by Mr Gorbachev was under discussion, but a final decision would depend on "the activities of both sides" in coming months. Signalling Moscow's wish to win compliance from Bonn over further disarmament moves and on co-operation over high technology, Mr Kvizinsky said the German-Soviet political dialogue had increased in quality. He called for the two sides, in parallel or together, to adopt common goals for further Geneva disarmament talks. He also urged "new forms of economic ties", involving a firmer commitment to the Soviet market by West German concerns. If West Germany were to build up its position in the Soviet market, "you have to put in not just one leg, but to step in all the way," he said. Relations between Bonn and Moscow have warmed considerably over the past six months. This follows difficulties a year ago after a hapless remark by Chancellor Helmut Kohl, comparing indirectly Mr Gorbachev with Josef Goebbels, the Nazi propaganda chief. The improvement partly mirrored a similar disarmament breakthrough, but also reflects Moscow's specific desire to play the German card in improving links with the West. A visit to Bonn this month by Mr Eduard Shevardnadze, Soviet Foreign Minister, will help to prepare a prospective Gorbachev foray to Bonn. Mr Strauss, leader of the ultra-conservative Bavarian Christian Social Union party, had not visited Moscow before during his long political career. This was on the grounds that the Soviet Union had not been prepared to

that ended the political debate and reforms which have come to be known as the Prague spring. Czechoslovakia is weighing the need for economic and social changes of the type being attempted in the Soviet Union, but Mr Strauss is not considered to be a strong proponent of reform. Tass gave no indication of the agenda for the visit, but a leader of such a Soviet ally would be sure to meet Mr Gorbachev and the two men would be likely to discuss Prague's economic and social concerns of the next few years. The Soviet leader paid tribute to Mr Strauss' realism and held out an olive branch towards ideas on German unity by going along with the notion that East and West Germany remained a single nation split into two states. The Soviet leader paid tribute to Mr Strauss' realism and held out an olive branch towards ideas on German unity by going along with the notion that East and West Germany remained a single nation split into two states. The Soviet leader paid tribute to Mr Strauss' realism and held out an olive branch towards ideas on German unity by going along with the notion that East and West Germany remained a single nation split into two states.

At a news conference in Munich on his return, Mr Strauss said Bavarian companies in the coal and medical sectors would profit from his visit. To build up atomic energy co-operation, the Soviet Union expressed interest in visiting the controversial Wackersdorf nuclear reprocessing plant, now in the early stages of construction in eastern Bavaria. During Mr Strauss' stay, the Kremlin is believed to have put forward traditional complaints and impediments to trade caused by Western controls on export of technology to the Soviet bloc. Mr Strauss said in Munich that the list of embargoed technology maintained by the Cocom organisation, which supervises this matter, was becoming less of a hindrance in view of political rapprochement. Mr Strauss, who is also chairman of the supervisory board of Airbus Industrie, said the idea of Airbus sales to Moscow did not come up.

French political financing bills soon

BY PAUL BETTS IN PARIS. THE French conservative government has confirmed its plans to table two bills on political party financing this month, before next spring's presidential election. The two bills will set a ceiling on election campaign funds and will obligate candidates in presidential, legislative and local elections to disclose their personal wealth. The government will also ask the French parliament to draw up proposals on the financing of political parties which could include a contribution from the state budget as well as private sources. The office of Mr Jacques Chirac, the Prime Minister, indicated at the week-end that the two bills were expected to be tabled in an extraordinary session of parliament before the end of this month after they had been approved by the Council of State and the cabinet. President Francois Mitterrand has already agreed to a special session of parliament to debate the new political party financing legislation. The decision to introduce political party financing legislation for the first time in France was taken last year by Mr Chirac in the wake of a growing series of

Canada, US sign trade pact

BY DAVID OWEN IN OTTAWA. THE FREE TRADE pact between the US and Canada was signed on Saturday by President Ronald Reagan and Prime Minister Brian Mulroney in simple ceremonies held nearby 3,000 miles from the signing. While President Reagan accomplished the task in the seclusion of a lavish private estate in Palm Springs, California, Mr Mulroney completed the signing in the farfare in his Ottawa office. The event was greeted by a series of minor demonstrations held by supporters and opponents alike in locations ranging from Parliament Hill in Ottawa to the Ambassador Bridge linking Detroit and Windsor. In a statement issued to mark the signing, President Reagan emphasised the international importance of the deal, claiming that it "will encourage supporters of free trade throughout the world". "The creation of the world's largest free trade area will be a mark of leadership," Mr Reagan added, "and presents an historic opportunity to the United States and Canada." The agreement still faces political hurdles on both sides of the border before its scheduled February 1989 effective date. Legislation to implement it must be passed by both Houses of Congress and the Canadian Parliament. In the US, proponents fear that Congress will not give approval at a bargaining chip to secure Administration concessions on the omnibus Trade Bill. Meanwhile, both principal Canadian opposition parties have vowed to fight the pact which the Liberal Party's Mr John Turner, described as "the Sale of Canada Act".

Ten blacks die as Natal feuds spread

TEN more blacks have died in heightened feuding in Natal Province, and a leading black newspaper said yesterday that the fighting cast a grim shadow of anarchy over the dream of a post-apartheid South Africa. Reuter reports from Johannesburg. In a statement, political unrest, police reported 10 deaths of blacks in Natal on Saturday, where 75 people were killed in December. The toll was one of the worst since a power struggle erupted a year ago in the black townships of Natal. Rivalries between the conservative Zulu-based Inkatha movement and the African National Congress anti-apartheid group, the United Democratic Front (UDF), lie behind the carnage. City Press, a Johannesburg newspaper with a wide black readership, said restoring peace in the area was imperative. Police said five men died on Saturday in clashes between two groups in Mphahlela township, three men were stabbed to death in nearby Doda and a 13-year-old youth and a man died of stab wounds elsewhere in the district of a poverty-stricken townships near Pietermaritzburg.

Gulf states' unified currency plan runs out of steam

AN AMBITIOUS scheme for a unified currency system among six Gulf states has run out of steam, with leaders reluctant to sever a traditional link to the dollar and turn their backs on Washington, according to Reuters. The plan to create a common monetary unit for the Gulf states was announced last week for their annual summit, discussion of economic matters was overshadowed by the Gulf war. The summit communiqué mentioned the scheme in just one paragraph, saying: "The council looked favourably upon steps undertaken towards the approval of a common denominator for GCC currencies as an important step in the framework of coordinating financial and monetary policies." One banker commented: "The communiqué shows the leaders want to be seen to be following up the subject, but it really amounts to a lack of progress." Oman pegged its rial to the dollar in 1973, while the Saudi, Bahraini, UAE and Qatari currencies are all in practice linked to the dollar. Kuwait pegs its dinar to a basket of currencies, but it is weighted heavily towards the dollar. Apart from the political sensitivities, there appears to be considerable debate among the Gulf states over what would be the proper peg for their currencies. Some favour using the International Monetary Fund's (IMF) basket, the Special Drawing Right, made up of the West German mark, Japanese yen, French franc, British pound and the dollar. Others argue for a basket of currencies tailored specifically to the region. This too has sparked a conflict of interest since the Gulf states pursue different investment policies and a change might expose some to greater currency risks than others. Saudi Arabia, for instance, has invested heavily in the US bond markets, while Kuwait has used its oil wealth to buy shares, often in European markets. Once a common peg was agreed, the six currencies would be allowed to fluctuate against each other by a maximum of 7% per cent. Central banks would intervene from a joint fund to keep currencies within those parities in a system very similar to that now in operation in Europe. But one banking source said: "There is still an awful lot that needs to be done. The scheme has not been shelved, but I simply could not say how long it will take to be implemented."

Jordan expects further violence on West Bank

JORDAN'S Prime Minister Zeid al-Rifai predicted yesterday that more violence between the Palestinian inhabitants of the Israeli-occupied West Bank and Gaza would flare in the absence of prospects for a political solution to the Arab-Israeli conflict. "What happened was a spontaneous reaction of the people refusing continued occupation without any hope of a settlement in sight," Mr Rifai said. "We believe that as long as there is no chance of a settlement in sight, what happened in the West Bank and Gaza is only a beginning," he added. The Jordanian Prime Minister said that Jordan felt that the only way to achieve a peaceful Middle East settlement was through the convening of a UN-sponsored conference to be attended by all the parties to the conflict and the five permanent UN Security Council members. He denied recent statements made by Israeli Foreign Minister Shimon Peres that there was a document of understanding known as "the London paper" between Jordan and Israel on the proposed conference. However, Jordan had discussed the powers, scope and issue of representation.

Venezuela attracts 36% more foreign investment

DIRECT foreign investment in Venezuela stood at \$1,796bn at the end of 1987, up 36 per cent - or \$477m - from the figure for year-end 1986, according to Mr Juan Carlos Rodriguez, Venezuela's superintendent of foreign investment. Mr Perez-Seguin said that about 80 per cent of the investment increase came from reinvestment of retained earnings and of other credits held by foreign companies already located in Venezuela. However, he noted that a considerable volume of new investment funds entered the country in 1987, a marked improvement over previous years. In 1986, Venezuela issued a new foreign investment code which eased conditions for overseas investors, eliminated red tape and offered new incentives, especially for export-oriented investment. In 1986-87 are net of accumulated losses and other reductions, the government official said. Most of the new investment registered in 1987 went to the industrial sector, with the metallurgical, mining, chemical, petrochemical and food processing areas leading the way. While Venezuela is interested in debt equity swaps, achievements in this area have been limited up to now. The superintendent said that the Government is working on a swap worth around \$300m that would be applied to a major industrial enterprise. Banking sources said this swap would cover investment in a new aluminium smelter. Meanwhile, Mr Simon Alberto Consalvi, Minister of Foreign Affairs, said that "conditions are in place" for Venezuela to join the Non-Aligned Group of nations. There are no factors which hindered the entry, he said, and the only thing required is an initiative by the Venezuelan Government.

China's press leads consumer rights battle

CHINA'S state-run media are not known for hard-hitting exposure of the Government. But, in recent weeks, Chinese journalists have been involved in a running war of words with a government department, accusing the Ministry of Light Industry of cancelling an exhibition planned to expose shoddy consumer goods, because of pressure brought by anxious manufacturers. The controversy began last August when the ministry promised that a national exhibition of inferior consumer goods be held in mid-December. More than 4,000 letters of complaints were sent to the ministry, many of them signed by consumers. The ministry's decision to cancel the exhibition was widely reported in the public. But the planned exhibition experienced difficulties when manufacturers even temporarily stopped selling their goods in Peking for fear the city's consumers would find the products inferior and recommend they be included in the exhibition. The exhibition was then unexpectedly cancelled. The Chinese media's strident criticism of this decision appears to be part of a general trend of a discussion of consumer rights in China, according to observers. "In most shops here, the customer is wrong and there is a sense that services need to be improved," one analyst said. Since the triumph of reform-oriented leaders over more conservative elements at the recent Communist party Congress, many Chinese journalists "feel the constraints are not so tight now," the observer noted. "Consumer rights is a popular issue," he added, noting "it is also a safe one." With the media beginning to exercise its muscle, the Ministry of Light Industry has gone on the offensive. Gong Zhe Rong, the exhibition organiser, said the ministry's main goal after it had announced the exhibition was to use social pressure through public opinion and newspapers to force manufacturers to pay closer attention to quality control, especially at the end of the shoddy goods on TV. To be included in the exhibition, the ministry stipulated that the shoddy merchandise had to meet several conditions, including letters of complaint from the

Ministry of Light Industry joins war of words, Our Peking Correspondent writes

Our Peking correspondent writes that the Ministry of Light Industry has joined a running war of words with manufacturers over the cancellation of an exhibition of inferior consumer goods. The ministry's decision to cancel the exhibition was widely reported in the public. But the planned exhibition experienced difficulties when manufacturers even temporarily stopped selling their goods in Peking for fear the city's consumers would find the products inferior and recommend they be included in the exhibition. The exhibition was then unexpectedly cancelled. The Chinese media's strident criticism of this decision appears to be part of a general trend of a discussion of consumer rights in China, according to observers. "In most shops here, the customer is wrong and there is a sense that services need to be improved," one analyst said. Since the triumph of reform-oriented leaders over more conservative elements at the recent Communist party Congress, many Chinese journalists "feel the constraints are not so tight now," the observer noted. "Consumer rights is a popular issue," he added, noting "it is also a safe one." With the media beginning to exercise its muscle, the Ministry of Light Industry has gone on the offensive. Gong Zhe Rong, the exhibition organiser, said the ministry's main goal after it had announced the exhibition was to use social pressure through public opinion and newspapers to force manufacturers to pay closer attention to quality control, especially at the end of the shoddy goods on TV. To be included in the exhibition, the ministry stipulated that the shoddy merchandise had to meet several conditions, including letters of complaint from the

China's press leads consumer rights battle

CHINA'S state-run media are not known for hard-hitting exposure of the Government. But, in recent weeks, Chinese journalists have been involved in a running war of words with a government department, accusing the Ministry of Light Industry of cancelling an exhibition planned to expose shoddy consumer goods, because of pressure brought by anxious manufacturers. The controversy began last August when the ministry promised that a national exhibition of inferior consumer goods be held in mid-December. More than 4,000 letters of complaints were sent to the ministry, many of them signed by consumers. The ministry's decision to cancel the exhibition was widely reported in the public. But the planned exhibition experienced difficulties when manufacturers even temporarily stopped selling their goods in Peking for fear the city's consumers would find the products inferior and recommend they be included in the exhibition. The exhibition was then unexpectedly cancelled. The Chinese media's strident criticism of this decision appears to be part of a general trend of a discussion of consumer rights in China, according to observers. "In most shops here, the customer is wrong and there is a sense that services need to be improved," one analyst said. Since the triumph of reform-oriented leaders over more conservative elements at the recent Communist party Congress, many Chinese journalists "feel the constraints are not so tight now," the observer noted. "Consumer rights is a popular issue," he added, noting "it is also a safe one." With the media beginning to exercise its muscle, the Ministry of Light Industry has gone on the offensive. Gong Zhe Rong, the exhibition organiser, said the ministry's main goal after it had announced the exhibition was to use social pressure through public opinion and newspapers to force manufacturers to pay closer attention to quality control, especially at the end of the shoddy goods on TV. To be included in the exhibition, the ministry stipulated that the shoddy merchandise had to meet several conditions, including letters of complaint from the

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OVERSEAS NEWS

Ramachandran widow asked to run Tamil Nadu

By K.K. SHARMA IN NEW DELHI

MRS JANAKI RAMACHANDRAN, widow of M.G. Ramachandran, the charismatic film star, who died 10 days ago after a decade as chief minister of the southern Indian state of Tamil Nadu, was yesterday invited by the state governor to form a new government.

Mrs Ramachandran, who has no experience in politics or administration, is expected to be sworn in as chief minister by Thursday. She finds herself at the head of a sharply divided party which owed its strength to her late husband's magnetic appeal for the people of the state because of his career in Tamil-language films. She is also a former film star.

The invitation to form the government came after intense squabbling in the ruling All-India Anna Dravida Munnetra Kazhagam, which represents a movement to promote Tamil rights. The fierce power struggle that followed Mr Ramachandran's death has split the party and could lead to a serious weakening in its position.

Mrs Ramachandran was chosen by the government after personally verifying the claim that 97 of the 131 party legislators in the 236-member state assembly had

supported her at a meeting called to elect the party's leader on Saturday.

The same day, the governor had received a claim from Mr V.E. Nedunchezhiyan, the interim Chief Minister - who had been asked to form the government after Mr Ramachandran's death - that most party members supported him. Mr Nedunchezhiyan has the support of Ms Lalitha, the party's powerful propaganda secretary who was Mr Ramachandran's leading heroine in many of the 130 films he starred in during the days when he was a madras idol in Tamil Nadu.

With the party now split, the new chief minister will depend for her survival on support from members of Mr Rajiv Gandhi's Congress-I party which was an ally of the late Mr Ramachandran. Now Congress-I is not in power in any southern Indian state, its pivotal position in Tamil Nadu gives it an important role and Mr Gandhi's decision on whom to support will be watched closely.

The importance Tamil Nadu has been underlines by the fact that the state government has given support and shelter to the Sri Lankan Tamils in their struggle for more autonomy.

Mugabe includes Nkomo in Cabinet

By Michael Holman

MR "ROBERT" Mugabe, who became Zimbabwe's executive president on December 31, has included the former opposition leader, Mr Joshua Nkomo, in his new 27-member cabinet, consolidating the pre-Christmas merger of the country's two political parties.

Mr Mugabe said the country's new broad-based government would establish a one-party socialist state within three years.

The incorporation of Mr Nkomo's Zapu party into the ruling Zanu (PF) established a de facto one-party state, but the country's constitution still allows for a multi-party system.

Mr Mugabe said he hoped the allocation of posts would encourage armed dissidents in Matabeleland, thought to be former members of Zapu, to "follow the decision of the leadership and come into the fold".

President Mugabe retained his sole white member of the cabinet, Mr Chris Anderson, as minister for public services, and appointed two white deputy ministers for mines and agriculture.

Mr Mugabe said that Mr Nkomo, who will rank third in the party's hierarchy behind Vice-President Simon Muzenda, will be a member of a triumvirate of senior ministers in his office, whose role would include the supervision of local government and rural and urban development. Mr Nkomo will also be part of a five-member inner cabinet.

Four officials of the former Zapu party are also given government posts. Mr Joseph Msekwa and Mr John Nkomo become ministers of construction and labour respectively, two other ex-Zapu members are deputy ministers.

Mr Nkomo said: "We are now trying to consolidate national unity by working together". The government hopes the development will end an inter-party rivalry that began in the early 1960s.

In other cabinet changes, the former Home Affairs Minister, Mr Enos Nkala, is given the defence portfolio. The former Foreign Minister, Mr Witness Mangwende, moves to information, exchanging ministries with Mr Nathan Shamuyarira.

Investment in 12 key industries will now be straightforward, writes Mohamad Aftab Pakistan to cut through its own red tape

PAKISTAN'S government yesterday announced a major attack on its own red tape, which has stifled investment for the past two decades.

Investment in 12 key industries will now be straightforward, and prices of most of their products will not be tied down by price controls, it is claimed.

These latest moves come in the wake of a belated realisation that most investment targets have lagged. The country's sixth five-year plan (1983-1988), will end on June 30.

The moves open new opportunities for foreign private capital investment. Pakistan's manufacturing industry recorded 7.4 per cent growth in 1986-87, slightly

lower than in 1985-86, but new investment has remained far below expectations with some targets met by less than half.

During the whole of the fifth Five-Year Plan, the government permitted new investment totalling \$4bn. Permissions for the first four years of the current plan covered investment totalling \$3.7bn. Despite this, many investors did not take their schemes further, because of red tape and lack of infrastructure facilities.

The country's central bank, in its annual report for 1986-87, urged the government to "deregulate the financial institutions and liberalise the economy in order to ensure orderly and

The moves follow a belated realisation that most investment targets have not been achieved, as the country's sixth five-year plan nears its conclusion

speedy growth."

The 12 industries in which start-up by private business will

not be hampered by red tape or government permissions include defence-orientated electronics, basic steel, basic metals and alloys, heavy mechanical and heavy-electrical plants, basic chemicals, petro-chemicals, public utilities: ships, aircraft, and locomotives, fertilisers, cement, sugar, and cotton spinning.

Any factory producing these items and not costing more than \$28m will require no government permission, nor will units financed by non-repatriable foreign private investment.

The government has already withdrawn controls on investment and pricing of cooking oil, and tractors and motorcycles, as

part of its deregulation programme. Industries which have attracted domestic and foreign private investment in recent years include: petrochemicals, textiles, electrical machinery, mineral products, food, beverages and tobacco, hotel and related services, paper and pulp products, metals, and transport equipment.

In the five years ended in 1986, the UK topped the list of foreign private investors with input totalling \$62m. Britain was followed by the US, United Arab Emirates, Saudi Arabia, Kuwait, the Netherlands, Switzerland, Belgium, Denmark, West Germany, Qatar and Japan.

Bilateral issues high on Thatcher's Africa agenda

By MICHAEL HOLMAN

MRS MARGARET Thatcher, the UK Prime Minister, is to leave today for Kenya and Nigeria on what may prove a controversial five-day tour.

It is her first visit to Africa since she attended the Commonwealth conference in Zambia in 1978.

Although she will have a round of engagements in both countries, no news conferences are scheduled, despite the fact that Nigeria in particular pressed for one, offering to limit the meeting to a small group of senior journalists.

The decision has antagonised Nigeria's outspoken and influential press corps, and it is a poten-

tial embarrassment to President Ibrahim Babangida, already under fire in some quarters for having invited Mrs Thatcher in the first place.

There are also officials who argue that, if Mrs Thatcher is to visit Nigeria, she should spend more than 28 hours in Africa's most populous nation, which is easily Britain's largest trading partner on the continent. UK exports last year exceed \$500m.

South Africa, inevitably a controversial issue, is expected to be high on the agenda for the talks with President Daniel arap Moi and President Babangida. But there are also sensitive bilateral

matters which Mrs Thatcher may have to take up.

In the case of Kenya, the largest recipient of British aid in Africa, there is growing concern about the government's treatment of its critics. Last August Amnesty, the London-based human rights monitoring agency, published a report claiming that more than 75 political opponents had been imprisoned in the past year after "unfair trials". The report also claimed opponents had been "tortured into making false confessions".

For its part, the Kenyan government, which denies the charges and argues that its

human rights record is better than that of most African states, has complained to the Foreign Office about the activities of Kenyan exiles in Britain.

The most demanding leg of Mrs Thatcher's visit will undoubtedly come in Nigeria, where she will arrive on Thursday. Angry British traders, frustrated by Nigeria's lengthy delay in settling disputed trade arrears going back to the early 1980s, and critical of the terms of the promissory notes offered, expect the prime minister to take up the problem on their behalf. In particular, they wish her to challenge the Nigerian Central Bank's rejection of the validity

of claims for more than \$2bn. Some Nigerian officials may have complaints of their own, arguing that Britain's support for the country's radical economic reform programme has been inadequate.

This view is not shared by some senior members of the government, who acknowledge that Britain's assistance has taken several forms. Nigeria's press, already disposed to be critical, might not be prepared to concede this.

Mrs Thatcher, who will stop in the northern Nigerian city of Kano on the way back to Britain, is to return to London on Friday night.

Maltese Premier starts three-day visit to Libya

By GODFREY GRIMA IN VALLETTA

DR EDDIE FENECH ADAMI, Malta's pro-western Premier, is to pay Libya an official three-day visit from today as guest of Col Muammar Qaddafi, the Libyan leader.

The move is likely to earn Mr Fenech Adami sharp criticism, particularly from the US, which wants Malta to sever its links with Col Qaddafi's regime. Since topping the island's Socialist Party from power after 16 years in an election in May, Mr Fenech Adami has consistently promoted stronger economic, commercial and social links with Libya, ignoring the US exertions.

He has accepted Libyan offers of crude oil at 5 per cent less than the official Opec price, is eliminating the need for passports for travel between the two countries, is encouraging further Libyan industrial investments on the island, and hopes to convince

Libya to sanction the start of offshore oil development on the disputed continental shelf between the two countries.

With the island forced by geographical proximity to maintain a working relationship with its North African neighbour, Mr Fenech Adami appears determined to extract the best possible contribution from Libya, for easing Maltese economic problems.

In exchange Libya wants two Malta into closer political affinity. This is difficult. The only accord Mr Fenech Adami will sign in Tripoli next week is an oil purchase agreement. Col Qaddafi will not be invited to visit Malta. According to the rules of protocol, the invitation can only come from the Maltese president. For years now Malta has not had one - only an acting head of state.

Anti-gambling chief wounded in Philippines

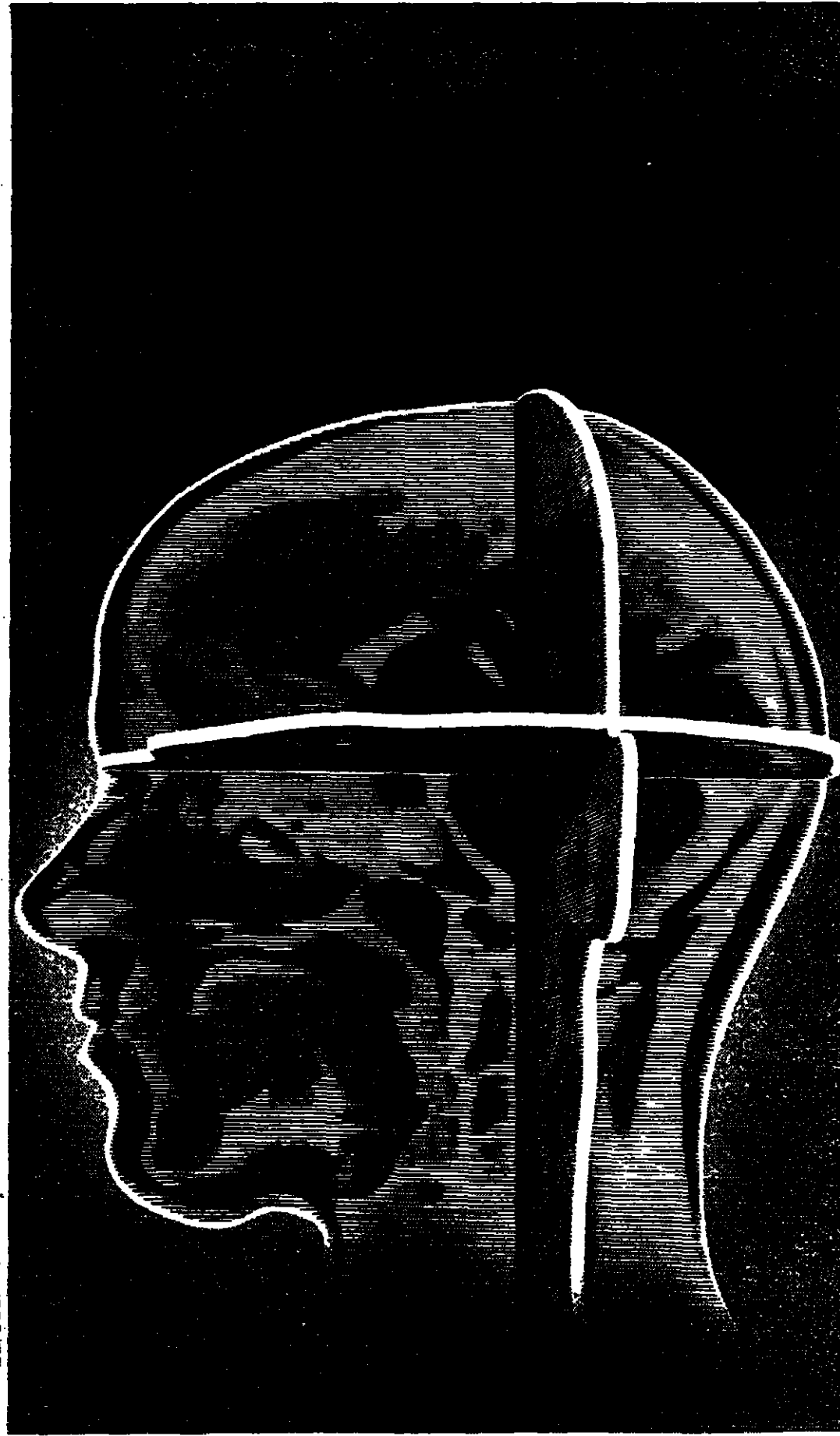
GUNMEN wounded the head of a presidential task force, and killed two of his guards early yesterday. Elsewhere in the Philippines, assailants killed two candidates for the regional elections due on January 18, and six people died in fighting on Mindanao island, officials said. AP reports from Manila.

Officials said Mr Potenciano Roque, head of the presidential anti-gambling task force, was wounded in the left elbow. Witnesses said he was attacked before dawn at his residence in suburban Antipolo.

The force put a news blackout on the assault.

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W. Germany	14,243	27,042	26,079	47,226
Japan	57,549	57,748	55,299	32,226
Belgium	7,772	7,790	7,463	4,414
Netherlands	13,285	12,506	12,519	14,842
Italy	22,408	19,264	16,300	18,131
France	27,935	28,615	29,061	34,961

Source: IMF.

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UK NEWS

Whitehall sways against electricity break up

BY MAX WILKINSON, RESOURCES EDITOR

THE CENTRAL Electricity Generating Board appears to be winning its battle in Whitehall to resist being broken up when the £37bn industry is privatised.

Its argument that the Government must preserve most of the CEGB if it wants a credible nuclear power programme has now gained wide acceptance.

However, the Treasury, which has been sceptical about the economic benefits of a large nuclear programme, is still fighting a rearguard action to have the CEGB split up into smaller companies.

Mr Cecil Parkinson, Energy Secretary, has not made up his mind about the future shape of the industry, but the options to be put to the Cabinet next month or early March are now becoming narrower.

He is said to be confident that he will be able to announce his decision in the early spring. As one official puts it, "the Christmas break, however, is stronger than the commitment to privatise the electricity industry."

The most difficult problem is that the Government's commitment to press ahead with the development of civil nuclear power is now seen to be incompatible with the more extreme free-market solutions which would involve breaking up the industry into many smaller parts.

It is now generally accepted that the case for nuclear power has become strategic rather than economic. It is thought unlikely that any private company sector would build a nuclear station unless the return on capital were about twice the 7 per cent the CEGB expects from its latest nuclear project at Sizewell, Suffolk, on the east coast of England.

Mr Parkinson has made it clear that he sees the Conservative



Cecil Parkinson: options narrowing

Party's commitment to nuclear power as equally strong, if not stronger, than the commitment to privatise the electricity industry.

Mr Parkinson has also been confronted with the fact that last year's report on the four-year inquiry into the Sizewell station said that its safety depended crucially on the expertise of the CEGB.

The authorities might, therefore, find it difficult to press ahead with the building of the planned replica station at Hinkley, Somerset, in the west of England, if the Government were simultaneously announcing the break-up of the CEGB.

It is feared that anti-nuclear campaigners might also succeed in raising doubts about the integrity of the safety case for Sizewell if the project were transferred to new management.

The solution which is now gaining most favour is to keep at least the generating side of the

CEGB together after privatisation, but to frame regulations which would encourage new competitors to build many of the 10 to 12 new power stations required by the end of the century.

The option of splitting off some of the CEGB's power stations into a "super-Mercury" akin to but bigger than British Telecom's competitor remains on the table, but ministers will be anxious to avoid antagonising power workers' unions which oppose this idea.

The possibility of creating an alliance between militant miners and power workers would be seen as politically disastrous even if unlikely at present.

The key to promoting future competition is generally seen to be the opening-up of the national transmission grid.

A strong independent regulator would be needed because any private generator using the grid to send power to a particular customer would lower the efficiency of the grid for all other users. The proper allocation of costs will, therefore, be a contentious and highly technical matter.

On the distribution side of the industry, a consensus has emerged that the present 12 area boards should be combined into four or five separate companies.

However, reorganising them and privatising them all within one Parliament is seen as too difficult. Two other interim solutions have been proposed. The first would be to privatise all 12 separately and allow mergers to take place in the private sector.

The second idea, favoured by the Electricity Council, would be to set up a holding company with a limited life for all the boards. After reorganising the structure of distribution the holding company could spin off its subsidiaries and fade away.

Shah plans national paper to rival Star

BY RAYMOND SNOODY

MR EDDIE SHAH, founder of Today, Britain's first colour tabloid newspaper nearly two years ago, plans to return to national newspapers with the launch of a new daily title this year.

The newspaper, possibly called either The Globe or The Post, will be aimed at The Star at the bottom end of the tabloid market and will be edited by former Star editor Mr Lloyd Turner.

The editorial headquarters of the paper will be in Warrington, north-west England, where Mr Shah's main business, the Messenger Group of free and paid-for weekly newspapers, is based.

Two dummy issues of the newspaper have already been produced and Mr Shah is said to believe they are already better than the first issue of the ill-fated Today.

Today, launched on March 4 1985, was taken over by the Lorrio group three months later and was then sold on to Mr Rupert Murdoch, chairman of News International, for £38m last June. The paper, which has a circulation of about 340,000, is still a heavy loss-maker.

The Messenger Group is planning to invest £1.5m in the venture and it is believed a prospectus is now being finalised in the City of London to raise an additional £4m. The aim is to try to attract individual, rather than institutional, shareholders.

The business plan envisages a low-cost paper with a heavy emphasis on entertainment and television capable of breaking even on a circulation of 200,000.

If the finance is raised the new daily will be launched towards the end of this year. Eighty journalists will be recruited. A total staff of 200 is planned.

Mr Shah, who last year gave up the chairmanship of Today - although he still has a 10 per cent stake in the venture - will try to avoid the mistakes that led Today into trouble almost from the beginning.

It will be produced on the same desktop publishing system already in use in his Warrington weeklies and the paper will be distributed through existing channels - either wholesalers or by Mr Murdoch's road-based distribution system.

The launch of Today was marred by delays caused by inexperience with the new electronic newsroom system.

UK faced with feast of hostile takeover activity

BY OUR FINANCIAL STAFF

LONDON corporate finance experts return from the Christmas holidays today to some £5bn (£3.4bn) worth of contested bids - the greatest amount of hostile takeover activity seen in Britain for many months.

The bids are still in their early stages, but the next fortnight will see them reach significant milestones.

The largest, and the most politically sensitive, is the offer for Britoil, the biggest UK independent oil company, launched by British Petroleum just before Christmas. BP, which has built up a 29.9 per cent stake in its target, is offering 450p a share in cash, valuing Britoil at £2.7bn. It seems likely to issue its formal offer document at the end of this week or next week.

However, the Government has stressed that it will use its "golden share" in Britoil to prevent a change in control.

Atlantic Richfield, the US oil company, is waiting on the sidelines, having built up a stake of over 20 per cent in Britoil.

Also in the oil sector, the £135m cash bid by Elf Aquitaine of France for Tricentral, the independent UK explorer, will reach the first closing date for acceptances on tomorrow.

The battle so far has centred on Tricentral's financial position. Elf argues that the company cannot develop its existing assets without a major loan package which would sharply reduce its asset value far below the £45p offer price.

But Tricentral has attacked Elf claims as "unsubstantiated" and, with the company's shares standing at 158p, well above the offer, the stock market pendence.

clearly thinks the fight has some way to run.

The two contested takeovers within the stores sector - Barker & Dobson's £22m cash and shares offer for Dee Corporation and Sears' £430m cash-only bid for mail order business, Freemans - are still in their early stages.

The first closing date for Freemans comes tomorrow. After the company's track record is strong and the shares have traded consistently above the 285p offer price.

The bid for Dee Corporation, Britain's third largest grocery group, heads for the first close a week later. The target is expected to post its defence document today.

B&D has a market capitalisation of just £126m and the £1.25bn cash element of the bid is being financed by bank loans, which will then be largely repaid by disposals if the offer is successful.

Shares in Dee, whose recent interim profits showed a 19 per cent decline, have been trading at around 210p-215p recently, compared with 165p ahead of the bid and the current 222p-a-share value of B&D's bid terms.

The £217m cash offer by Blue Circle Industries, Britain's largest cement group, for Birmid Quilcast reaches its first closing date tomorrow.

In its defence document last week, the lawnmowers, boilers and cookers group kept most of its powder dry, concentrating on arguments for continued independence of the stock market.

Rich-poor gap widens

BY ANDREW TAYLOR

THE INCOMES divide separating Britain's richest and poorest families with children has grown considerably in the 1980s, according to a report today from the Independent Family Policy Studies Centre.

It follows last month's government figures showing that the rich have gained a progressively larger share of national income since 1979.

The Family Policy Studies Centre report also indicates that the post-war trend towards greater equality of

incomes between the richest and poorest groups has been reversed in the last few years.

It compared the fortunes of families with children in different income groups from 1979, when the Conservatives came to power, to 1985.

Two-child families in the bottom 20 per cent of income earners saw average real income before tax and social security benefits fall 43 per cent in the period while a similar family in the top 20 per cent saw real incomes rise 11 per cent before tax.

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A preposterous suggestion, you may say. Quite ludicrous. But before you dismiss it as pure fiction, consider the following facts.

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Skills and knowledge that may have taken years to acquire can be out of date almost overnight.

Think of the ship designers in the north-east who have had to turn their hand to designing oil rigs.

The plant breeders who have had their world turned upside down by the advent of genetic engineering.

The textile designers who have had their crayons replaced by computer keys.

Formal qualifications on their C.V.'s, though important, would have given little indication of their capacity to accept and adapt to change.



**WILL TODAY'S GRADUATE BE WEARING A DIFFERENT
HAT IN THREE YEARS' TIME?**

Of course, if we expect people to have a more flexible, adaptable outlook on work, we must also expect the same of their employers.

So companies must be prepared to do more than just give time off for occasional conferences. They must also allow time off to attend business schools and retraining courses. And maybe more.

Some companies do already. But should we follow the example of countries like Sweden where mid-career breaks of several years are not uncommon? In fact, is it time we reappraised our attitude towards career patterns entirely?

Traditionally, the long serving employee has been held up as the shining example. And, of course, many years of experience in a company can be invaluable.

But in today's fast changing world perhaps we should look more favourably on frequent job changes and regard them as the need to face fresh challenges.

That, in itself, is a challenge that business may soon have to face.

Indeed, in our view, training, or lack of it, is very often at the root of many companies' staffing difficulties.

Yet, sadly some firms still see training as a side issue when compared with, say, providing plant and finance.

According to the latest (1985) MSC figures, the average company spends a mere 0.15% of its turnover on training.

As for ourselves, this year training will cost us some 10% of our income. It's a sizeable sum. But it's one we would not spend unless we knew it would repay us fully in the years to come.

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UK NEWS

Continued from Page 1

Lawson inflation pledge

source of great strength, and I mean to keep it that way. Q. In September you presented a plan for a more formal system of managed exchange rates. Given the political priorities in the US and West Germany's reluctance to give up its freedom in monetary policy, do you still think such an advance is possible? Have you modified your ideas?

I will not repeat the very clear exposition I set out in my September speech, although I would urge any of your readers who may be interested in it to read it, since most of the newspaper reports at the time got it wrong. I would only add that what I was advocating was something I described as 'managed flexibility' in the real world flexibility is essential. Recent events have served only to reinforce my conviction that this is the way ahead. In the space of less than three years, the dollar has lost more than half its value in terms of the other major currencies. A movement of this magnitude over so short a period is not only highly disruptive to trade and industry worldwide, it is also out of all proportion to changes in economic fundamentals over the same period. As for the political obstacles to which you allude, there are always political obstacles in the way of any sensible economic policy. But I believe that in a matter as important as this, it is right to work patiently to overcome them, rather than meekly assuming that they will be insuperable. As Paul Volcker put it in a characteristically perceptive speech in Geneva a few weeks ago: 'The health and vitality of an open international trading order will be importantly dependent over time upon the willingness of governments of large trading countries to reach some realistic collective judgments about the broadly appropriate level of exchange rates. Those judgments will, in turn, need to influence the design and implementation of domestic policies if they are to be meaningful and durable.'

Q. You have said that you do not expect to serve another full term as Chancellor. What are your key policy objectives for the remainder of your time in No. 11 and to what extent do they include a further push on tax reform? A. It would, I think, be without precedent in modern times to serve two full terms in the demanding job of Chancellor. But for the moment there is work to be done, in weathering the current international financial storm, in fostering international economic co-operation (which, as the G7 communiqué just before Christmas showed, is still desired on all sides despite the differences that presently exist), and in reinforcing our success over the whole range of domestic policies including, as you suggest, tax reform.



Nigel Lawson: economy set to grow at a "satisfactory pace"

Q. Unemployment fell sharply last year despite buoyant earnings. Do you still see a strong link between pay and jobs? How soon will you be able to get the underlying inflation rate down from the about 4 per cent seen since 1983?

A. Unemployment has come down because of the strong growth in the economy, helped by the Government's employment and training measures. I have no doubt that it would have come down lower and sooner if British employers had awarded pay rises closer to those of their main overseas competitors. I am determined to bring about a further gradual reduction in inflation over the medium term, but we have never set a precise timetable for achieving our inflation objectives and I do not propose to start now. It is, however, worth recalling that inflation has stayed steady since 1983 despite the necessary once-for-all depreciation of sterling following the oil price collapse and despite a period of unprecedented real growth in the economy. This is a far better performance than we have ever known before, and fully demonstrates the effectiveness of our policy against inflation. Q. You said last year that you would conduct a review of the privatisation programme. How far is this focusing on

increasing the scope for competition in newly privatised industries, particularly with regard to electricity? A. The Government has announced an ambitious programme for this parliament, including steel, water and electricity. Steel, of course, is a highly competitive industry, on a world basis. We are currently looking at a number of options for the structure of the electricity industry after privatisation, and are looking specifically at how best to introduce competition where that is possible. Clearly there cannot be competition in the full sense when it comes to water supply and sewerage, but this merely means that it is essential to put in place a proper regulatory system.

Q. The Institute for Fiscal Studies has highlighted the severe anomalies (marginal tax rates of over 100 per cent for people on low incomes) resulting from the interaction of tax and social security payments. Is this an area where we can expect reform? A. This has, in effect, already been done. The social security reforms to be implemented this April, by assessing social security benefits on net rather than gross income, will eliminate altogether the marginal "tax" rates of over 100 per cent which at present result from the interaction of tax and social security.

Newsnight slot poses difficulties for BBC

By Raymond Snoddy

THE BBC is facing a series of difficult scheduling decisions in the wake of the row over a fixed starting time for Newsnight, the daily current affairs programme. Mr Michael Checkland, BBC director general, unexpectedly announced last Wednesday that, from September, the programme would have a fixed start at 10.30pm.

It would be up to schedule planners to find creative ways of dealing with difficulties caused. There are now at least three outstanding issues to be decided that could cause renewed tensions between the news and current affairs directorates, led by Mr John Birt, and television service executives.

They are:

- Whether the Nine O'Clock News on BBC1 should be extended.
- How to schedule three specialist current affairs programmes planned for BBC2, covering financial and economic matters, social affairs and politics.
- What input BBC Television Centre management should make to programmes produced by the news and current affairs directorate.

Mr Checkland has repeatedly said the schedules of BBC1 and BBC2 are organised by the channel controllers and the managing director of television, except when he personally intervenes. Meanwhile Mr Checkland has publicly apologised to Mr Eric Cotton, managing director of BBC network television, who was not informed in advance of the Newsnight decision.

Mr Checkland announced Newsnight's fixed time at a press conference to launch See For Yourself, a two-hour "behind the scenes" report on the corporation which was broadcast on BBC1 last night.

The decision regarding Newsnight had been finalised just before the press conference, even though television executives were still working on a report that would have pointed out potential difficulties.

Mr Cotton heard at the same time as the press that discussions on the issue were over. He left immediately afterwards, without staying for a buffet lunch.

The decision has created a headache for schedule planners. Because of the 5pm watershed dividing programmes suitable for young people from those which might not be, it will be difficult to show serious films on BBC2 on week nights.

Short fillers may also have to be introduced, even though these often cause viewers to switch channel.

A commercial television executive yesterday described the BBC decision as "a gift".

He said: "I can't believe it. It's absolutely barny."

Direct payments plea for universities and students

BY MICHAEL DIXON, EDUCATION CORRESPONDENT

THE GOVERNMENT should scrap its plans to increase control over the universities, says Professor Elie Kedourie, of the London School of Economics, in a pamphlet published today by the Centre for Policy Studies.

He claims that existing controls have served only to divert the bulk of the universities' income by paying much larger fees.

"Instead of the state taking the taxpayer's money with one hand and dishing it out in grants and scholarships with the other, let the money be directly spent by those on whose behalf it is now expended," Prof Kedourie adds.

The second of his proposed changes is the introduction of student loans, which would have "the great advantage of diversifying the income of universities, and of making them alert and directly responsive to the needs of those whom they educate."

Another change would be to give parents tax allowances on money spent on the university education of their children. Although such allowances would not help families with

straight to the institutions and to hand most of the funds to students.

"The students would then provide the bulk of the universities' income by paying much larger fees.

"The Government now spends annually very considerable sums in direct grants to universities. How then if a capital sum representing the present discounted value of, say, 10 or 15 years' subventions were to be given to each university which would be held in trust for the benefit of a handsome dowry (or better, alimony), it would have to fend for itself."

Diamonds into Glass. Centre for Policy Studies, 3 Whitehall Street, London SW1E 6PL. £3.90.

Cavendish memoirs to be raised in Commons

By Michael Cassell, Political Correspondent

THE GOVERNMENT'S latest attempts to prevent former members of the security services from disclosing information about their activities are to be raised in the Commons when the House returns next week.

At the weekend, the High Court modified a blanket ban imposed last week on The Observer newspaper, preventing it from publishing details from the memoirs of Mr Anthony Cavendish, a former MI6 officer. The newspaper is now barred only from printing information directly concerning Mr Cavendish's experiences in the security and intelligence services.

On the same day, the High Court extended the injunction to The Sunday Times, although it was given permission to republish any material from the book it had previously printed.

Yesterday, the newspaper repeated some information it had previously published from the Cavendish book, but not the intelligence. The account includes involvement in espionage activities in the 1950s and MI6 training in clandestine, occasionally illegal, intelligence work.

Mr Tom Dalyell, Labour MP for Lighthgow, has persistently criticised the Government's handling of the security services. He plans to ask the Prime Minister if he did not refer the Cavendish book to the D-Notice Committee, which vets publication of sensitive information, or to Sir Philip Woodfield, newly appointed commissioner to security services personnel.

Mr Dalyell claimed the Government was abusing the injunction system in an attempt to "scare off" the press.

Justician, Page 8

Parts of NHS 'may fall apart'

BY ALAN PIKE, SOCIAL AFFAIRS CORRESPONDENT

THE DANGER exists that some parts of the National Health Service will "simply fall apart" due to financial difficulties, the Association of Community Health Councils warns today.

A survey by the association shows many health authorities in England and Wales are facing budget deficits in the current financial year. The association says the extra £101m pledged by the Government last month to help solve immediate problems at best, cover only half the spending gaps faced by authorities.

"Community health councils are increasingly expressing grave concern and anxiety about the financing of hospital and community health services," says the report.

The picture for the present year for many health authorities is one of crisis for their budgets and as a result there must be gloom about the prospect for services and the maintenance of patient care.

Community health councils are statutory bodies responsible for representing patients' interests to health authorities. They have rights of consultation over changes in health provision in their areas.

But one of the association's concerns is that in the recent atmosphere of crisis, that process often fails to be observed, and health authorities have reduced services without adequate consultation.

"Some of these measures are ostensibly temporary, but with the prospect of no real room for manoeuvre in the coming year, many of the closures may be permanent," says the report.

"Moreover, many community health councils feel that health authorities are making use of creative accountancy devices

that are merely temporarily hiding the underlying financial problems."

The association expresses concern at government suggestions that health authorities should be able to release around £150m through further cost improvements and efficiency programmes in the coming year. "Many councils now take the view that the scope for further savings is at an end without a serious impact being felt on patient services."

By far the most common cause of health authorities' financial problems shown in the association's survey is the Government's failure to meet the full cost of nationally determined pay awards leaving health authorities to make up the difference from their own funds.

Other frequent problems are overspending on agency staff budgets and failure to achieve efficiency savings.

BAA urges more support for quieter jets

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

THE GOVERNMENT should give greater encouragement to airlines to buy and fly quieter jets, according to BAA (formerly the British Airports Authority), and several independent operators and other organisations.

Those bodies have made this point strongly in their comments on Department of Transport plans for new night jet noise restrictions at Heathrow and Gatwick airports to become effective next spring.

The DoT's plans were outlined recently in two consultation papers.

Responses from airlines and other interested parties submitted by the December 23 deadline are being studied and final decisions will be announced in February, for implementation from April 1.

Broadly, BAA supports the overall government approach of giving preferential treatment in its proposals to the quieter types of jets, but believes they could go much further. It also believes there should be tougher curbs on older, noisier jets.

The quieter types of jet - now classified as Night Noise Group C (NN/C) - include Boeing 737-300s, 757s, 767s, British Aerospace 146s, Airbus A-310-200s and probably also the new A-320s.

The DoT proposals are for the number of Heathrow summer night jet flights to be cut from 3,650 to 2,750 and the winter quota cut from 3,150 to 3,000, and new quotas being frozen for five years.

At Gatwick, two plans are suggested for discussion. One is to freeze current annual quotas of 4,300 night flights for the summer and 1,950 for the winter, also for five years.

The other plan, more controversial, is to halve over the next five years the permitted number of flights by older, noisier jets while increasing the number of flights by quieter jets.

The net effect of that would be a rise over five years in the total number of night flights at Gatwick, from 4,300 to 5,190 in the summer and from 1,950 to 2,327 in the winter.

The BAA argues that that would reduce noise, both at night and during the day.

However, the government proposals do not go far enough to encourage the quieter aircraft, and further moves should be taken to give maximum incentive to airlines to operate NN/C aircraft, says the BAA.

At Gatwick, that would mean reducing the proposed quotas for the noisier aircraft and increasing the quotas for the quieter

ones.

"At Heathrow, a separate quota should be given for the quieter aircraft."

Britannia Airways, the second largest airline in the UK, has expressed its disappointment that the proposed DoT changes do not go further.

Britannia argues that the new plans will allow less than one additional night take-off or landing at Gatwick this year "and it will be 1992 before there would be an average of no more than four more flights per night than are currently permitted."

The Gatwick Area Conservation Campaign, which represents environmentalists, says in its own submission to the DoT that it welcomes signs that the Government is "at last beginning to take an overall environmental policy."

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Timetable for BA-BCal merger expected soon

BY OUR AEROSPACE CORRESPONDENT

A DETAILED timetable for implementing the merger between British Airways and British Caledonian Airways is expected to be issued soon, possibly this week.

It will set out precisely how the former second-force airline will be totally integrated into BA, including where the expected 2,000 redundancies resulting from merger will fall.

Most BCal shareholders have accepted BA's £250m offer. They have until next Friday to respond.

The programme will cover personnel, aircraft and routes, and reach into every aspect of the two airlines' operations.

The redundancies issue is likely to be given priority, to remove as much uncertainty as possible.

BA has said the 2,000 involved, spread through both airlines, will be treated sympathetically and understandingly, with as much natural wastage and early retirement as possible.

Sir Colin Marshall, BA chief executive, looking even further

ahead, says to all staff in a New Year message that the task of integrating the merger will be as challenging as BA's flotation.

He says: "The larger BA will be an even more dynamic and faster-growing company with a future of great promise. Our people have been greatly extended. The pace of the race is hotting up and we are out there with the leaders."

"To our competitors, I have this message, and I offer no apologies if it sounds familiar - You ain't seen nothing yet!"

Wool industry confident on 1987 export levels

BY ALICE RAWSTHORN

THE BRITISH wool textile industry is confident that 1987 will have been one of its best years for exports, in spite of the fall in the dollar and the recent rise in the price of raw wool.

Exports of British wool rose steadily in the first three quarters of the year. But the industry's hopes of achieving record exports were dented in October when overseas sales fell compared with the previous year.

Until that month, exports had increased by about 20 per cent a month. Yet in October the industry's difficulties - the price increase for raw materials and the impact of the fall in the dollar on the currencies of its highest cost competitors in the Far East - came to a head.

The raw wool sector has borne the brunt of the fall, overseas sales of both cloth and yarn increased in October. Nevertheless, that suggests that the industry may not beat its record year of 1985 when exports rose to £607m. In 1986, sales abroad slipped to £566m.

The wool textile industry has experienced a remarkable recovery since the early 1980s when hundreds of mills closed in Yorkshire and Scotland. Yet wool textile manufacturers are not yet sufficiently confident to invest in new capacity. Many had hoped that buoyant exports would encourage investment.

Mr Alistair Henderson, deputy chairman of Patons & Baldwins (part of the Coats Vycella group) and president of the Confederation of British Wool Textiles, said the industry must invest in capacity and machinery in order to remain competitive and to prevent an increase in imports into the domestic market.

The wool textile industry must plan for the mid-1990s in terms of production and manpower, he said.

Welsh house prices rise

BY ANDREW TAYLOR

HOUSE PRICES in Wales rose by 7.2 per cent last year compared with a 13.2 per cent increase in the UK as a whole. Principally, the largest Welsh building society says.

The society estimates that the average price of a house in Wales is now £23,818, for which a typical borrower would require a mortgage of £22,076.

Mr John Mitchell, the society's chief executive, expects differential between Wales and the rest of the UK to narrow this year.

SPA

Strategic Planning Associates is pleased to announce the appointment of

MR. ANGUS WALKER

who has joined the London Office as Vice President and Managing Director

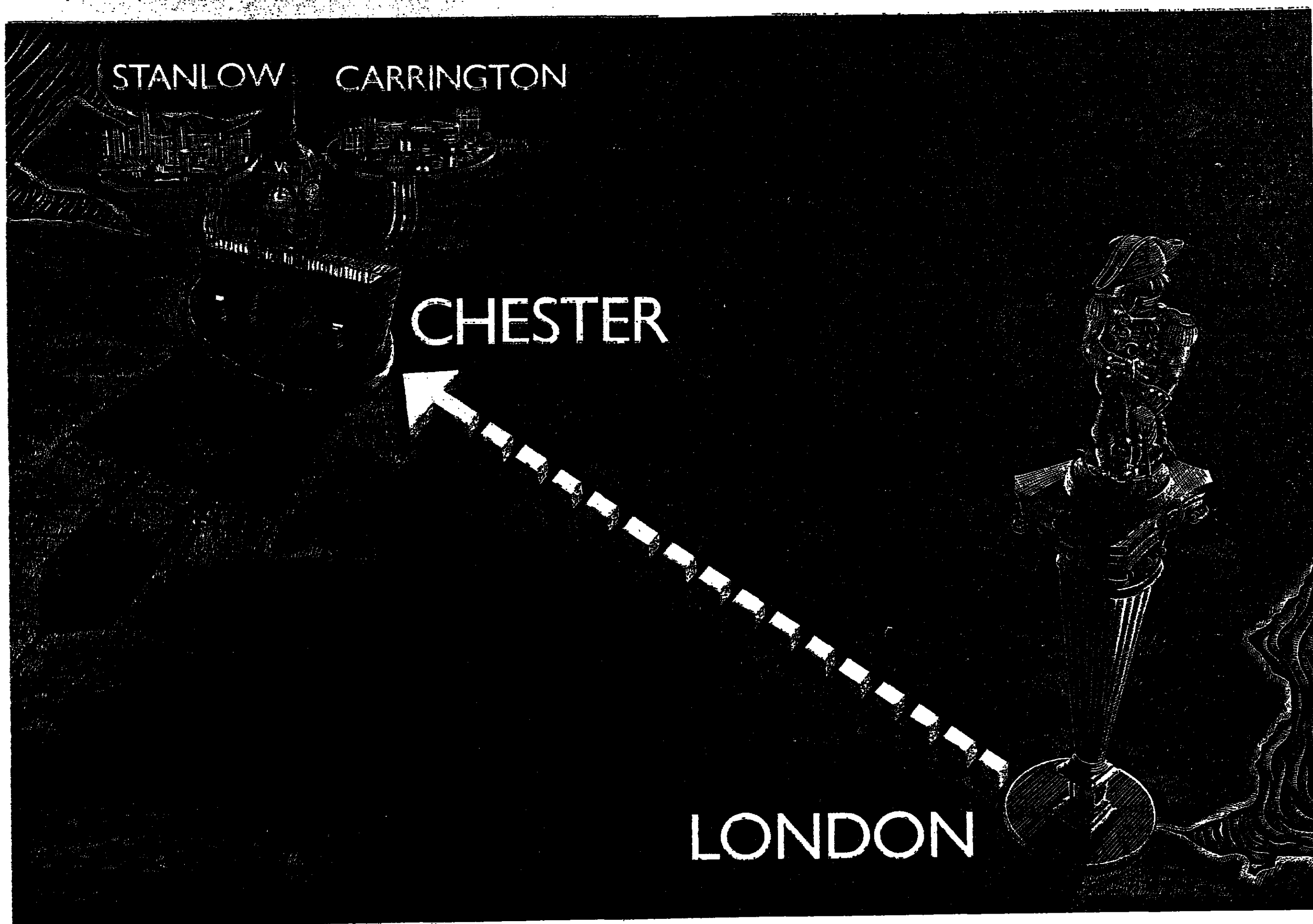
Mr. Walker was previously Director, Corporate Strategy with British Telecom

Schlumberger

Schlumberger announced today that it reached a settlement with the U.S. Government concerning whether or not Wireline off-shore operations in the outer continental shelf area during the years 1970 through 1986 were subject to U.S. taxation. Under the settlement, the Company will record an after-tax credit to income of approximately \$222 million (\$81 per share) in the fourth quarter. After 1986, Schlumberger's income from Wireline off-shore operations in the outer continental shelf area is subject to U.S. tax.

Handwritten signature or note at the bottom of the page.

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Shell Chemicals

UK NEWS

Demand curbs urged to avert overheating

BY SIMON HOLBERTON AND RALPH ATKINS

THE CHANCELLOR might face a difficult policy environment this year if he does not move to cut the rate of expansion in domestic demand, says Goldman Sachs...

London fails to win back US tourists

By Christopher Parkes

LONDON FAILED again last year to attract back US tourists who abandoned the British capital in 1986 because of fears of Libyan terrorists and fallout from the Chernobyl nuclear power station explosion...

Aberdeen seeks its prosperity abroad

After the collapse of the oil price, offshore support industries had to diversify to survive. James Buxton reports



The Aberdeen support fleet in better days. Recovery has not meant return to pre-collapse activity levels.

MR JIMMY MILNE recalls bitterly the period more than a year ago when Aberdeen's 15 years of expansion were brought to an end in a matter of months by the oil price collapse...

Since he spoke, the sharp drop in the oil price on the open market has reminded Aberdeen how volatile oil prices still are...

What's been left from the failures has been picked up by others, says Mr Harry Tocher, an assistant general manager with the Bank of Scotland in Aberdeen...

Some leading Aberdonians believe the rationalisation has not gone far enough, Mr Keith Blair, the local director of investors in industry (38), says: 'I've told my customers to think of mergers.'

One of the weaknesses of the UK services industry, he says, is that it hasn't merged and consolidated as much as it should...

Japanese agree deal to build Lancashire plant

BY RAYMOND SNOODY

AN INFORMATION exchange agreement between the Sanwa Bank of Japan and inward, the north-west England promotion agency, has had its first success...

Change of name for W. H. Smith

Financial Times Reporter

W. H. SMITH & Son (Holdings), parent of the diversified retailing and distribution business, has changed its name to W. H. Smith Group from January 1...

Scientific R&D 'cuts concealed'

BY MICHAEL CASSELL, POLITICAL CORRESPONDENT

MR GORDON BROWN, Labour frontbench Treasury spokesman, is demanding a government explanation for what he says is a deliberate cover-up of new spending cuts in scientific research and development programmes...



Gordon Brown: paper from anonymous source

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Company Notices KLEINWORT BENSON Kleinwort Benson Limited announces that with effect from 1st January 1988...

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National Home Loans Blue Chip Interest Rate for the period from 1st January to 31st March 1988 is: FOR HOUSE PURCHASE..... FOR REFINANCING.....

Perth offices win Riba award

BY ANDREW TAYLOR

THE WORLD headquarters of General Accident Fire and Life Assurance at Pitheavlis, Perth, a new main entrance for Belfast's Zoological Gardens and a sheltered housing project in Birmingham are among nine developments that have received 1987 architectural awards for merit from the Royal Institute of British Architects...

A two-storey sheltered housing scheme for the city of Birmingham, designed by W.G. Reed and built by George Stubbings was a model of skilful design for elderly...

A high-tech speculative office development at 1 Fitzroy Avenue in the City, the building, designed by Rosehaugh Greycoat Estates, was designed by Arup Associates and built by Laing (Management) Contracting...

SOME TIME over the next six months the Yama Garment Factory in Sana'a, North Yemen, will start producing Lee Cooper jeans.

Licensing

An entree to difficult markets

Peter Montagnon on the Lee Cooper jeans group's use of this method of exporting

Aston Martin, Lonsdale sports wear, and Puffin, which manufactures upmarket thermally quilted outer garments.

Licensing is a natural choice for a clothing manufacturer because it offers a way of penetrating new markets that avoid the mass of import restrictions that dominate world trade in garments and textiles.

Moreover, it is cheaper than direct investment in production facilities abroad. Companies which make such an investment in developing countries may run the risk of expropriation in a volatile political climate. More commonly they also face difficulties with the repatriation of earnings if the host country is short of foreign exchange.

Against this has to be set the fact that the proceeds of licensing are relatively low, at least in gross terms. LSI recently signed a new licensing agreement with Odevne Zavody KPT Nalepku of Czechoslovakia which will double to 2m a year the number of Lee Cooper garments produced in that country.

But it also helps develop a continuing relationship with the licensee which has to meet high initial selection criteria. This enables it to police its agreements to ensure that quality control is maintained and that the licensee respects the strict geographic limits on his license.

LSI is a subsidiary of Vivat Holdings, the umbrella company for the Lee Cooper group. With a staff of just 16 in a third-floor Baker Street office, it controls licences for the production of over 5m garments a year in more than 20 countries around the world.

Now it is in the process of branching out to service more than just its parent company. It has taken on other licensing rights, including those for

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Lee Cooper licensing extends from jeans to Aston Martin watches

To improve the situation because there is still too little political will for international cooperation. In Far Eastern countries where state enforcement of laws on intellectual property rights is particularly

have tended to shun since the onset of the debt crisis in 1982. It expects shortly to sign a Lee Cooper licensing arrangement with a Venezuelan company which will start production at 100,000 garments, rising to 5m annually within the next five years.

Not only will the Lee Cooper name be competing with well-established local and US jeans producers in Latin America. It is also entering a part of the world where host governments are often particularly suspicious of licensing arrangements.

As in many other developing countries Latin American governments tend to encourage direct foreign investment rather than licensing because investment brings in an inflow of badly-needed foreign exchange. Cooper argues that a licensing arrangement can, however, help the host country achieve a high degree of import substitution. This was an argument that swayed the North Yemeni government.

For a relatively small outlay in royalty fees, the host government is acquiring technology and know-how that will reside in their country for good. That is in essence LSI's main selling point. As Cooper puts it: "We are able to provide a proper consultancy service to our licensees in all aspects of the business. The licensee's business is our business."

WHEN Heinz Duerr became the ninth post-war chairman of AEG, the West German electrical and electronics company, one of the first things he did was to change the shape of the boardroom table.

AEG

Widening the long-term perspectives

Heinz Duerr explains to Andrew Fisher the West German group's post-recovery strategy

It used to be U-shaped, but that did not suit the plain-talking Duerr, a strong believer in management through communication. He says he disliked the way directors talked at each other across an empty space, tending to defend their own areas of activity rather than consider the needs of the group as a whole.

Now, says 64-year-old Duerr, "any problems remain on the table and don't just fall through into the gap. They stay there and fester until they are dealt with." In a group with such a wide range of products as AEG - from industrial electronics, software and cables to washing machines, cookers and hair dryers - openness between the divisions is vital, he feels.

With some 50 sites in Germany, Frankfurt-based AEG is a highly complex research and manufacturing group and the job of co-ordination is a tough one. "You can try to do it by laying down guidelines," he adds. "But I think it can only be done properly through the personal approach."

Today, AEG is on the move again. But the memories of five years ago, when operating losses totalled DM832m (€161.6m) and the shares sunk to DM23 in August 1982, remain. AEG, which had expanded too fast and carelessly, almost trying to become a second Siemens, had to seek protection from its creditors. They wrote off DM60m of its debts, leaving the company to pay the rest.

On the other side of the table was the formidable Franz Steinbock, now president of the IG Metall trade union. These days, Duerr prefers to talk about the future rather than the past. AEG is investing heavily in its main activities, with an eye to the long term rather than quick returns. In the next five years, it intends to spend some DM3.5bn. "We have moved to a rebuilding from a consolidation phase. But not too fast. When a car accelerates too rapidly, it wears out the tyres. That wastes rubber."

DM600m (8 per cent of turnover) on research, planned the Ulm site before Daimler came along. The DM600m centre will combine the resources of Daimler and AEG. It is developments like these of which Duerr says: "Our children and grandchildren will see the fruits of what we are doing now." But AEG has plenty on its plate at present, and not just on the currency front. Olympia, its office equipment unit, still loses money in a highly competitive and fast-moving sector. AEG, which is working on video telephones and has developed text recognition systems, is combining all its office activities into one new division based on Olympia and aimed at the high-tech office of the 1990s.

Olympia is a valuable brand name Duerr says. The AEG initials, now in bright red, are also familiar, especially in the household goods sector, which makes modest profits and keeps the company's name in the public eye. Duerr once toyed with the idea of selling this operation to raise much-needed funds. Then, he concedes, "I was more driven than driving."

Duerr, tall, friendly and forceful, with a predilection for tab-collared shirts and striking ties, has had eight tough years at the top of AEG. Five years ago the company was almost bankrupt but with the company under the wing of Daimler-Benz for the past two and a half years, Duerr has managed to emerge smiling and with his reputation intact.

This is in strong contrast to his predecessor, Walter Gips, whose harsh, confrontational style alienated many in and outside the company. Gips, said to be less ruthless than he seems, began the restructuring and capacity-cutting policies needed to trim the unwieldy AEG. But he did little to lift battered morale. The more public relations minded Duerr initially tended to go too far the other way, talking about progress when AEG was still struggling badly. Some former colleagues say he underestimated the scale of its problems.

Duerr was brought in by creditor banks to head the stricken AEG, which had foundered through losses on nuclear power and stagnation in other sectors. The son of an industrialist in the state of Baden-Wuerttemberg - home to German household names like Daimler, Porsche, and Bosch - he still owns the Duerr engineering concern, which makes parts for the motor industry. He has adopted the name as head of the regional

employers' wage negotiating team. Duerr emphasizes that AEG is not just moving in its chosen direction because Daimler now owns 66 per cent. It would have been driven to become more international and technologically advanced. But Daimler has strengthened both AEG's finances

and its image. "The perspectives with Daimler are wider." Just what are these perspectives? Duerr, also on the Daimler board, emphasizes that they are very long term. Ever since Daimler paid DM1.8bn for its stake just over two years ago, outsiders have wondered what both sides had in mind.

In contrast to the striving for quick returns common in the US, Daimler and AEG are prepared to be patient. "We are in a highly industrialized society which is now in a state of upheaval," says Duerr. "It takes a long time to change existing structures."

While the result of the link between Daimler and AEG will take time to show through, one concrete example is emerging. This is an ambitious joint research centre being built at Ulm, south of Daimler's headquarters in Stuttgart. AEG, which last year spent

Unlike some of AEG's other activities, which include radar, high frequency communications, airport control equipment, and letter-sorting machines, white goods like dishwashers and cookers do not promise likely mutual benefits with Daimler. But apart from profits, the division is important for AEG's image.

"We have to become more market-driven, not just technology-driven," says Duerr. "White goods help. Without market thinking, you can do nothing."



Heinz Duerr: personal approach

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Nuttall busy in London

During the last few weeks before Christmas, NUTTALL has been awarded over \$5m of work in the London area. In Docklands, work has started on the East India Dock reclamation works where 140,000 cubic metres of contaminated silt are being removed from the bottom of the dock. The silt is to be filled with 230,000 cubic metres of sea dredged materials under a \$4.3m contract for London Docklands Development Corporation.

BUILDING CONTRACTS

Improvements at Butlins camps

Building workers are spending the winter at the seaside - to help provide happy holidays for thousands of families next summer. TARMAC CONSTRUCTION has started work on contracts to improve facilities at four Butlins holiday centres. The largest project, worth \$1m, is at Woburn, Northampton. It features a water-walk complex including leisure pools, slides, rapids and waterfalls. Other work includes building a food court, extensions to two caravans, and modernising 370 chalets. The company has already undertaken similar projects to upgrade facilities at Southcoast World, Bognor Regis, Fumocost World, Skegness, and Somerwest World, Minehead.

FINANCIAL DIARY

Table with columns for BOARD MEETINGS, DIVIDEND & INTEREST PAYMENTS, and COMPANY MEETINGS. Lists various companies and their financial events for the week of January 4-8, 1988.

DIARY DATES

Table with columns for THURSDAY JANUARY 7, FRIDAY JANUARY 8, and SUNDAY JANUARY 10. Lists trade fairs, exhibitions, and conferences for each day.

Trade Fairs and Exhibitions: UK

Table listing trade fairs and exhibitions in the UK, including dates, locations, and organizers.

Overseas Exhibitions

Table listing overseas exhibitions, including dates, locations, and organizers.

Fairclough builds offices

FAIRCLOUGH BUILDING'S southern division has started work on two office construction contracts totalling \$7.6m. The largest, at \$5.6m, is for a five-storey development at 110-118 Midsex Street, London E1 - close to Broadgate. The 70-week project, for AMEC Properties, comprises three adjoining buildings covering a combined 6141 sq metres of office accommodation. The buildings will consist of reinforced concrete framework with brick and sandstone cladding. Internal features include air-conditioning, raised access flooring, and five lifts, plus staircases. Completion is scheduled for early 1989.

Resurfacing Gatwick runway

The runway at London's Gatwick Airport is to be resurfaced during 1988. Gatwick Airport has awarded a \$5.5m contract to AEG CONSTRUCTION. The work, which will be carried out at night, includes the removal of the runway's top surface, the treating of joints and resurfacing with Marshall asphalt. The project will take nine months with the runway being closed between 2200 hours and 0655 hours most nights. During the closure the emergency runway will be brought into use keeping the airport operational.

Solar shading Glasgow complex

A \$1m plus contract has been awarded to COLT INTERNATIONAL, Havant, by Sir Robert McAlpine Management Contractors, to equip the biggest building in Europe with solar shading. After eight years of careful planning, Sir Rocco Centre in Glasgow, being developed by the Church Commissioners for England and Sears Property Glasgow, is soon to be enveloped in glass, covering a shopping and leisure centre complex. To avoid the effects of direct sunlight and secure the desired level of lighting, 8,000 sq metres of fixed and motorised Colt Helioscreen solar shading equipment has been chosen. Made from PVC-impregnated woven glass fibre which reduces the effect of direct solar radiation by 85 per cent, the beige white fabric, up to 12.6 metres long by 1.6 metres wide, will be kept under tension to limit sag, irrespective of temperature changes. Operated by an automated management control system, triggered by thermistors and photocells, the motorised blinds will operate together and will retract in the event of fire. They are fire proof, damp, vermin and frost proof and colour fast.

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes in the details published

Why forecasters are at sea



ANTHONY HARRIS

THE US financial world is going in to 1988 faced with an unresolved whodunnit. Did the programme traders cause the crash of last October, as the Chairman of the New York Stock Exchange believes, or were they sim-

ply among the victims of it? This question will only be resolved, if ever, when we know exactly who did what, and when. In a general sense, though, I feel sure that the high technology hedgers are guilty as charged. Changes in prices are the means by which supply is made equal to demand. If half the market is hedged and can carry on as if nothing had happened, the system will fail to reach balance, and prices will move further.

These large price movements explain why economic forecasters are so at sea at the moment. They rely on models which relate the future to the patterns of the past; but as market volatility has grown, we have drifted further and further into uncharted territory. Economists will only be able to build a model of the present worldwide adjustment after it has happened. The US adjustment may

already be under way, despite the apparent paralysis in Washington. The really abnormal thing about the US economy is not the high level of the government deficit, in spite of all the fuss about it, but the low level of private saving. According to the blueprint of Reaganomics, drawn up during the Carter presidency, tax cuts were supposed to stimulate saving, and tax cuts in favour of the rich to stimulate it still more. In the event, saving has fallen to ever new lows throughout the Reagan period, and nobody is sure why. Standing tall may have something to do with it; so may the bull market.

There are now some signs that this long swing is

reversing itself, as swings do. Consumer spending seems to be less buoyant than consumer incomes, though this will not be certain until the Christmas figures are collated. Certainly consumer borrowing is growing far less fast; according to the most recent figures it is now lagging behind income growth.

Most tellingly, consumer confidence surveys show a really major fall, and it is heaviest not among those who lost money in the stock market crash, but among ordinary wage earners, who can read the newspapers, and are worried about their prospects. The first lesson of 1988 may be that ordinary people can react much more quickly to a crisis than can a government operating

under the US Constitution. It would be pleasant to report that American industry was reacting as rationally as its employees, and much more positively. The devaluation of the dollar has worked something like a miracle for the core industries, the "rust belt". These are now working right up to capacity, mainly at very satisfactory profit margins. A streamer across the windows of a Mid-West stockbroker says it all: "In rust we trust".

High activity and long order books ought to provoke a surge in investment in new capacity, and the most recent investment statistics suggest that a boom may be beginning. However, there is also a great deal of

anecdotal evidence of companies which are refusing to commit themselves. This is partly because the company directors are just as bemused as the economists by the volatility of financial markets; they know that the dollar is down, but have no confidence that it will stay down.

Another worrying possibility is that many US companies, which have the markets to justify investment and the confidence to do it, cannot finance the capital expenditure which they would like to make. This is a direct result of the over-heated state of Wall Street until October 19, when no company, however large, felt safe from corporate raiders.

In self-defence, US com-

panies have been borrowing to the hilt to preserve their equity from outsiders. The leveraged buy-out, which leaves all the equity in managerial hands, is simply the most extreme example so far from expanding. LBO companies are still struggling to sell assets to reduce their debt burden. Many other companies have bought in their own equity on a large scale, substituting debt. They can borrow no more. The fever in the securities markets, which provoked this rush into debt, may have been cured on October 19. The debts remain.

It seems possible, on present evidence, that most of US industry is hamstringing in this way, and that the boom in plant and equipment

shown in the recent figures reflects mainly expansion by foreign-owned companies, with the Japanese in the lead. This has already excited some protectionist congressmen, who talk about a foreign invasion; but it could prove the most helpful development of 1988.

It was the invasion of portfolio investors in the earlier 1980s which made it possible for the US to drift so easily into debt on a national scale. The present wave of factory-building is quite a different matter. For the time being, the factory-builders are helping to finance the US trade deficit (and since the biggest import growth by far is in capital equipment, they may also be causing it). In the longer run, though, they may achieve the soft landing for the dollar which the politicians and central bankers have found it so difficult to contrive.

INTERVIEW

A rock of certitude

John Lloyd meets Immanuel Jakobovits, the newly ennobled Chief Rabbi of the British Commonwealth

DISCUSSION of the British malaise has shifted from the material to the cultural and spiritual. The BBC and the Church of England now command the places in news schedules once reserved for names involved in bitter industrial disputes, such as Longbridge and Aslef. Recondite institutions and figures like Crookford's and the deputy director general of the BBC are given prominence deriving from the perception that the positions they hold are no longer sinecures of a secure establishment, but battlefields.

On a battlefield, fixed points and strong positions are enviable possessions. If it is true that there is a general search for a moral universe within which to locate our fragmented lives, then those who are discovered to be occupying firm rocks already - preferably rocks of ages - will benefit.

Sir Immanuel Jakobovits, Chief Rabbi of the British Commonwealth, ennobled in the New Year Honours list and the first rabbi to have been so, stands on such a rock. The vigour and certitude with which he gives voice to moral concerns is contrasted by many with the bitter internal wrangles within the Christian churches on, above all, matters of sex; in particular, women priests, homosexuality and AIDS.

His moral positions are not adopted - not consciously, at least - by reference to points fixed by contemporary debate, but wholly by reliance on scripture, on the law, and the prophets. His social reflexes derive from the position of a diaspora Jew of the late 20th century, drawing on a tradition, a history and a tragedy which are far more consciously realised in every Jew than their equivalents (where they exist) in most Christians.

By creating him a peer, the Prime Minister has put into parliament the most authoritative spokesman for "traditional" virtues in the country: it is an irony, but not in these times strange, that he should be an immigrant and that his values are those of a community which is determined to maintain its separateness.

To maintain separateness, Jews must maintain their very

existence; and that at different times and in different countries has been in doubt. Jakobovits is not in doubt as to how that has been achieved: "The whole art of Jewish survival lies in the fact that we have managed to triumph over nature". And his own affinities with the Government are expressed in the congruity of its values to Jewish ones: "I think (the Government) has created a veritable revolution of attitudes, perhaps even more important than the economic advances which have occurred."

His most celebrated intervention in the general social debate was his response to the report commissioned by the Archbishop of Canterbury, Faith in the City (September 1985); he found it over gloomy, and too little concerned to stress individual human agency as a means of rescue from poverty and despair.

"Let me put it this way: I believe that work in itself has an intrinsic value, not only because it helps us to earn a living but because we pay our debts to society in this way. And therefore I make a distinction between unemployment and idleness. Unemployment is a curse, of course, but idleness is an even greater curse. Everybody can keep themselves busy and creative, and should be induced to keep themselves creative. Therefore see self help as a means whereby we make ourselves useful, irrespective of rewards: here is an intrinsic purpose and a means whereby every individual does not look at himself, or allows others to look at him as a reject from society. I want everyone to feel that society needs us, that we have a role to play. That is why I advocate a passion for work, an addiction to work."

To challenge him on a code which could be seen as excessively individualistic, I unwisely quoted to him a saying of Hillel, a rabbi who was preaching some 2000 years ago:

"If I am not for myself, who will be for me. And being for myself only, who am I? Separate myself not from the community. Trust not in thyself until the day of thy death." Jakobovits finished the saying after only a few words and continued: "We see here that Judaism seeks not to create a tension between individualism and collectivism: on the contrary, it seeks to balance out that which we owe to ourselves and that which we owe to others. Hence my support for a variety of political views: they are all needed. We need collec-

other spheres. On homosexual acts, for example: "I would call these things morally wrong. My creator tells me it is grievously wrong under the heading of immoral acts. I want to cultivate a moral sense in which society will differentiate between what is acceptable and what is morally unacceptable. Now I do see, of course, that there is a minority which has a natural proclivity to homosexual tendencies. But the art of life is to control your natural desires. If it were allowed, every time we felt something was "natural", to surrender to temptation, then we wouldn't have an order of society altogether...if I tell children, you can live either with a married partner or any partner at all (as long as you are faithful) then it destroys their sense of values."

For Jakobovits, the only sexual behaviour which may be sanctioned is married love: no leader, religious or secular, has the right even to imply encouragement of any other. "My issue with the Government on its AIDS campaign was that the state should not encourage anything which confers legitimacy to immorality. I fear that the campaigns on AIDS presupposed that if you can't do the best thing (which is to be married and have fidelity within your marriage) then you must do the next best thing, and protect yourself against the consequences of your infidelity."

"Now if it had been properly spelled out, the campaign would have said: the ideal thing is that society promotes stable loving marriages; but where these, sadly, do not exist or are broken, we urge you to take precautions...that I could sanction. When Government propaganda, or education, promotes something which comes to terms with evil without saying so, then that is inherently unacceptable."

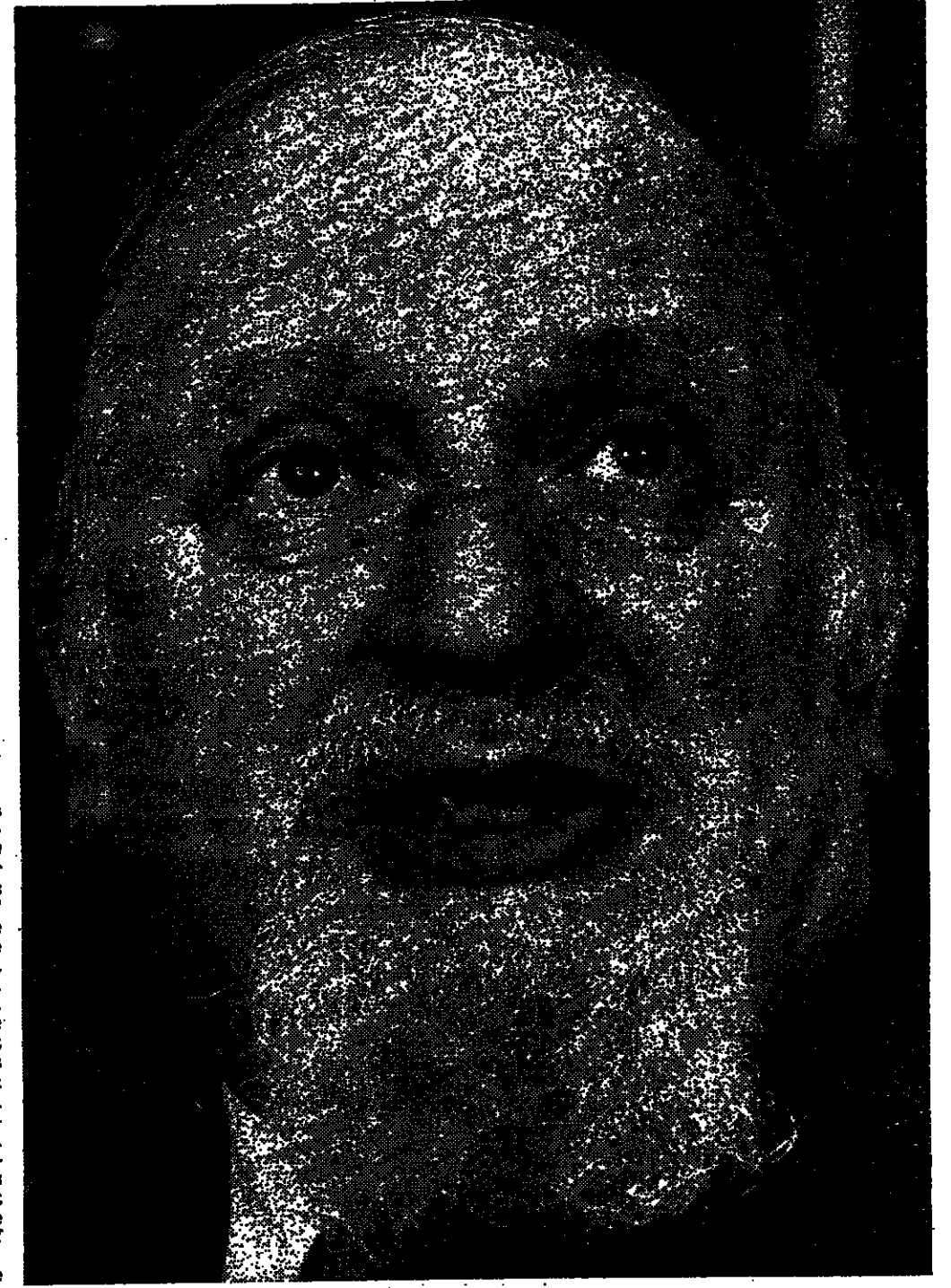
For him, the greatest triumph for and of the Jews is their continued existence. It is

a perception sharpened by his own circumstances - at 16, a refugee from Nazi Germany; and he quickly rages when, for example, it is put to him that there is a school of "revisionist" historians which denies many or all the facts of the Holocaust.

"I have lost innumerable close relatives - uncles, aunts, cousins - with whom I grew up. Where are they if they didn't perish? Entire vast communities...as you travel through the European continent you see places that used to have Jews by the hundreds of thousands and are now empty. Where are they? Take a country like Holland - 30,000 or 30,000 left out of well over 150,000 that were there before. Germany used to have 600,000 and now, what is it - 30,000 or something like that? So where are they if they didn't perish? Poland had 3m Jews - where are they? It's a cemetery. Jewishly speaking, Poland has a few thousand left out of millions."

He has been cheered in his work because, while Anglo-Jewry (some 320,000-350,000 strong) still suffers "losses" (or "defections", as he also calls them) through "marrying out" and drifting away from the faith, at the same time "we have an enormous revival today, quite a phenomenal rebirth of Jewish learning and Jewish living on a scale unknown in modern times. It is in Britain and it's global, it's a universal phenomenon - in Israel, Australia, in the US, in the Soviet Union for that matter. So that while many still get lost, the committed minority expands greatly, becomes more intensive and no doubt will, within the foreseeable future, constitute the bulk of our people."

That is, he believes, because people are seeking stable truths in a feeble age and in his belief in that, he recognises, unwillingly and conditionally, a parallel with the current traditional versus liberal travails in Anglicanism: he took public issue, earlier this year, with the Very Reverend David Edwards, Canon of Southwark Cathedral, for calling the bible "haberdashery". "I do not rely on the fickle



human conscience to guide me on what is right and wrong. I rely on external revelation and on the law. And so I wouldn't call that fables: that is a denigration of something I hold dear, precious more than life: that all our martyrs gave their lives - to maintain the primacy of a teaching which gave

meaning to our very existence. I do not think that modernity in itself, conoling terms with the moral world and what it has to offer, is in any way in conflict with believing that my moral norms are governed by factors which are immutable, beyond time, as true today as it was three thousand years ago and will be

three thousand years from now.

"The very value of religious truth I see as being its not changing: it is beyond the freak ups and downs of fashions and fads; and therefore, as I once put it, I am a salesman of antiques; and the value of what I sell is that it has lasted, it has endured."

Judges bow too willingly



IT WAS entirely predictable that the legal encounters of 1987 between the Government and the press over the publication of Spycatcher would spill over into 1988, if only because the Government's attempt to silence the pre-Christmas judgment of Mr Justice Scott, denying the Government permanent injunctions against the Guardian, the Observer and The Sunday Times, has already been scheduled for hearing in a fortnight's time.

Less predictably, but nevertheless worrying, has been this weekend's fresh foray by the Government to the High Court for an injunction against the same two Sunday newspapers over the memoirs of another ex-Secret Service officer.

The Government's claim for absolute and long confidentiality for information acquired by its officers, so resoundingly rejected by Mr Justice Scott, was invoked once more in all its absolute form. And the judiciary appears momentarily to endorse that approach.

A week ago it appeared that Mr Anthony Cavendish's book, Inside Intelligence, had been circulated to his friends and acquaintances in the guise of a Christmas card. This was a private publication after commercial publishers had abandoned the idea of publishing the book following indications from government officials that five chapters of the autobiography concerned Mr Cavendish's

Secret Service employment over a period of five years - 1948-1963 - if published would be objectionable.

The two Sunday newspapers were suspected of being on the point of publishing extracts from Mr Cavendish's writings. In the absence of undertakings not to publish, the Government went to the Vacation Judge, Mr Justice Ian Kennedy (not to be confused with Mr Justice Paul Kennedy), for an injunction to restrain publication of any part of the book.

The injunction was granted *ex parte* on New Year's Day - that is, in the absence of those sought to be enjoined. On Saturday afternoon the two newspapers successfully persuaded the judge that the terms of the injunction were too widely framed, and that the restraint on publication should be restricted to matters describing Mr Cavendish's years working in MI6.

Assuming that the limited terms of the injunction, by which the newspapers are prevented to publish at least until the solution of the Spycatcher appeal a fortnight hence, why did the Government in the first instance ask for injunctive relief in terms wider than was strictly necessary to preserve matters of national security? And why was Mr Justice Ian Kennedy acquiescent to a blanket ban on publication which he recognised 24 hours later was too broadly based?

There is no excuse for a government which is litigating to restrict freedom of speech to ask the courts for an order wider than it is strictly entitled to. To pursue a claim for prior restraint of publication by the media always calls for the utmost restraint on the part of the claimant. It can only be in exceptional circumstances that a gag on freedom of speech is permissible. There is a kind of trigger-happiness about the present Government in pursuance of, not just the public interest but its own interests that disclose an unhealthy attitude to free speech.

Such an improper use of governmental power should be constantly kept in check by the judiciary. No doubt it was the full argument which the judge heard on Saturday from the two newspapers' counsel that persuaded him to limit the scope of his earlier order.

That said, it is the function of an independent judiciary in a democratic society not to be

overly impressed by the fact that it is the government seeking a legal remedy. The apparent willingness of some judges in recent times to bow dutifully in the direction of government is worrying. Mr Justice Scott's trenchant, not to say pungent, criticism of the Government's claim to be entitled to stifle publication of Spycatcher, when all around the English-speaking world the book is freely available and by all accounts being avidly purchased, was a refreshing reassertion of the traditional approach of English judges.

Mr Justice Ian Kennedy's ruling can at least be justified as preserving the Government's claim, even if at trial it is rejected, since the interim injunction will be very short-lived. The newspapers will not have to wait months and months for the case to come on for trial, as they did in the Spycatcher case. The scope of confidentiality in respect of Secret Service officers should be authoritatively defined by the courts in the next few weeks so as to make clear the proper province of governmental ban on publishable material.

The current dispute has arisen largely because the law of confidentiality has itself been in a state of uncertainty development by the courts unaided by any parliamentary intervention. On the other hand the transparent defects in the catch-all provision in Section 2 of the Official Secrets Act, reflected in juries unwilling to convict even in the face of compelling evidence, has led government lawyers to turn their attention away from the cumbersome and unworkable criminal law to the civil law of confidentiality. Hence the long-running battle in the courts both in Australia, New Zealand and in this country over the writings of Secret Service officers.

We are told that the Government is preparing a White Paper with proposals for reforming the ill-fated law relating to every unauthorised disclosure of official information. When that happens it will be less necessary to stretch, if not distort, the law of confidentiality to those cases where confidentiality has in fact been lost through wide dissemination into the public domain.

Whatever the outcome of the present confrontation between government and the media, there is a continuing need to maintain a working relationship. Prevention of publication of matters that are strictly within the secrets of the state will be affected only by informal and private process of the D Notice Committee. The courts are not a satisfactory instrument to resolve these conflicts, at least so long as the judges remain uninspired by a constitutionally guaranteed freedom of expression such as exists in Article 10 of the European Convention on Human Rights.

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(*) The prospectuses are currently being updated and may be obtained at no charge at the funds' registered office.

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ARTS

Architecture in 1987/Colin Amery

Buildings debate finds a broader base

It is always tempting to look back on a passing year and claim that it represents some kind of watershed. For architecture 1987 may not have been a crucial turning point but it was in many ways a significant year.

Architecture is, and this should not need saying, about the buildings, edifices, and constructions that man creates upon the earth. It is also about politics, personalities, planning and prevarication that in the final judgment what matters are the buildings.

In 1987 one of the most encouraging signs has been the fact that there have been some significant new buildings to discuss and that the general level of that discussion is broader and more intelligent.

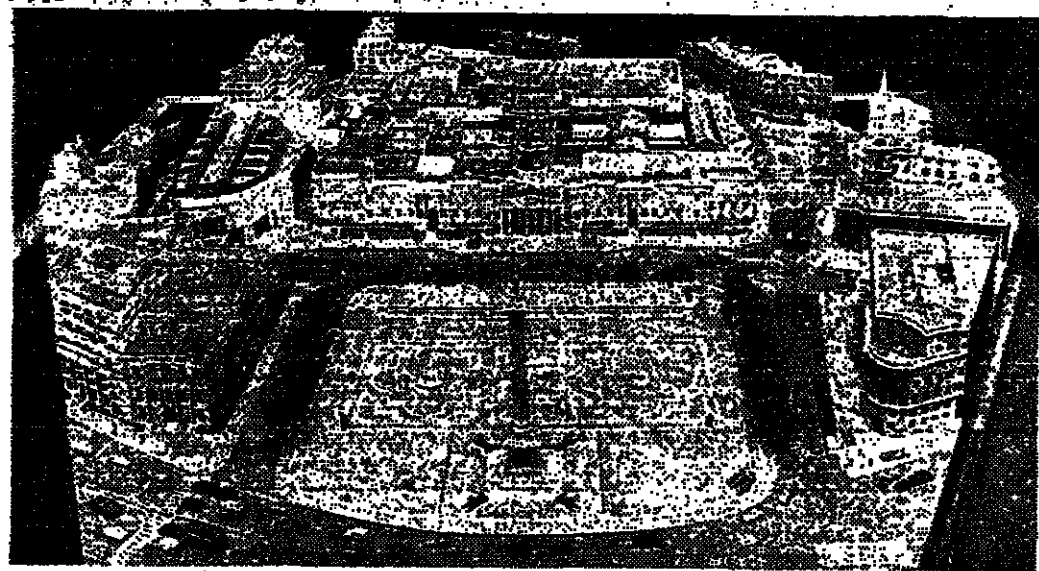
Early in 1987 the conversion of Paris's Gare d'Orsay into a museum of the 19th century was unveiled. The Italian architect Gae Aulenti had produced a powerful architectural solution to a very difficult problem. Her adoption of a strong, almost Egyptian style within the iron and glass structure was brave and stylish.

The whole scale of the undertaking impressed all of those present at the opening - particularly visitors from Britain used to a more pragmatic government approach to the arts. We have major collections of 19th century art and artefacts that are poorly shown or invisible but there is little cultural vision that would enable a project like the Musée d'Orsay to get off the ground.

Much of the display, particularly of paintings, at the Musée d'Orsay is debatable but it has two great virtues. Architectural inspiration is one of them and a new and effective approach to information about art is another. The French commitment to computerised information is impressive and reveals a didactic approach to museums that could well be emulated here. It would be fatal if modern methods of communication obscured art but, used intelligently, there is no doubt that it can encourage illumination.

Paris offered other architectural pleasures in 1987 and the promise of more to come in 1988 and 1989. It was thrilling to see Jean Nouvel's Institut du Monde Arabe almost completed last year. It is another of President Mitterrand's "grands projets" for Paris and demonstrates both a late 20th century view of Islamic architecture and a very French fascination with high technology.

The light sensitive wall with its moving parts that shade a



A model of Robert Venturi's Sainsbury Wing design

glass wall with a superimposed Islamic pattern will be a Paris landmark. The new centre will attract the public to the left bank of the Seine at the end of the Boulevard St Germain both by its contemporary beauty and its museum displays. The transfer to the new rooms of the Institute of the Arab and Islamic collections from the Louvre and some of the items from the Musée des Arts Décoratifs et des Arts Africain et Océaniques also demonstrate a rational and sensible attitude to both museums and collecting in Paris. What are the chances of the new regime at the V and A doing some similar re-thinking?

Architecture and museums have been close partners in 1987 - indeed the new museum is the architectural icon of the 1990s. A major new one opened last year in Cologne - the Wallraf-Richartz Museum and the Ludwig Museum with a new concert hall on a crucially important site between the Rhine and the most unified Gothic cathedral in Europe. The architects Busmann and Haberer opted for an almost industrial approach to their buildings. Metal cladding, factory-like skylights and hard internal finishes make this a tough and not very comfortable cultural collection. In town planning terms it is more interesting through the creation of a new square on top of the underground concert hall is not a complete success.

In London the opening of the Clowre Galleries - an extension of the Tate to house and display the Turner bequest - met with mixed critical reception. The architect James Stirling, in my

view, played with architectural fire in a spirited and original way. He does not do this at the expense of the showing of pictures.

The Turner galleries are very successful, beautifully lit by natural light, and elegant and formal as befits the collection. Any arguments about colour with James Stirling seem to fall on deaf ears (more appropriately, blind eyes) but his games with Neo-classical primitivism are rewarding and original.

At the same time as the Tate Gallery opened its new wing, the Trustees of the National Gallery announced their selected design by the American architect Robert Venturi. This put the architectural debate about the National Gallery back where it belongs - in the international league.

Mr Venturi's design was well received although some critics have found it too complicated and clever a concept with insufficient rationality to be a close neighbour of a classical building. Mr Venturi's concern with classism is daring, his very tight planning ingenious and if the gods are with him his Sainsbury Wing design should develop into a fascinating new London building.

Major architectural activity does seem to have been confined to the capital and the south coast and two competition results show a diversity of architectural approaches. The proposals selected for the replacement of Spitalfields market will be designed by an extraordinary selection of architects. The list of names shows the way the developer/architect relationship is

working. Richard McCormac's firm is supported by much more commercial architects Fitzroy Robinson - and there is an encouraging chorus of smaller firms: Allies and Morrison, Edward Cullinan and Hunt Thompson.

The second competition result for the Land Securities, Stag Place, Victoria, competition was won by the comparatively unknown Richard Horden against competition from more familiar leading firms. His proposals for giant glass sails that will overlook the walls of Buckingham Palace have not yet hit any rocks of royal criticism.

The major international competition of the year, for a design for the Indira Gandhi Memorial Arts Centre in New Delhi, was won by Ralph Lerner, an American architect who had practised in England with Richard Reid. There was some interesting entries for this competition and it would be a worthwhile exercise to exhibit them. The site for the arts centre is an important one in relation to Sir Edwin Lutyens's plan for the city.

Philip Johnson put forward his proposal for the second stage of the Hay's Wharf development opposite the Tower of London. His adoption of the Barry-like forms of Highcote or the Palace of Westminster did not seem welcome from the Docklands Development Corporation and were turned down.

The same board continued the development of London's Docklands with little architectural inspiration. As the crop of largely indifferent new buildings appears there is a terrible sense of a missed architectural opportunity.

Le Corbusier received the homage of the faithful at major shows at London's Hayward Gallery and (more successfully) in Warsaw. No one doubts his importance. What is worrying is the deadly seriousness of his supporters who refuse to admit that many of the master's ideas were incredibly damaging.

Erich Mendelsohn, an almost equally interesting architect, although not as well known as Le Corbusier, had his centenary in 1987. It went almost unrecorded although a small exhibition about his work was mounted at the Barbican School.

In England Erno Goldfinger and Maxwell Fry both died in their eighties and the equally long-lived historian, Henry Russell Hitchcock, died in New York. The passing of the founders and practitioners of the international modern style reminds us of their talents and intelligence.

What has been sad about the cultural climate of architecture in 1987 was that it remained bedevilled by a polarisation of views. Any critic of bad architecture is sadly seen as an enemy of modernism. I would like to see an acceptance of a much more catholic view of new architecture in 1988, a recognition of the fact that we are in a lively and important transitional stage. It would be wonderful, too, if the profession, the patrons and the public could accept as their common aim for 1988 a raising of standards of design and vision for, not just 1988, but to take us up to the Millennium.

L'italiana in Algeri/Covent Garden

Ronald Crichton

Over 50 years have passed since Rossini's *L'italiana in Algeri* was last given at Covent Garden. The title role then was sung by Conchita Supervia, who restored Rossini's comic mezzo role parts to the repertory in their original form. Supervia's inimitable timbre, caressing phrases and bubbling high spirits, preserved on disc (she recorded four numbers from *L'italiana* more than once re-issued), remain as challenge, inspiration and sometimes, no doubt, discouragement to her successors.

Although shunned since those days by Covent Garden, *L'italiana* has been firmly fixed in the repertory elsewhere as one of Rossini's popular buffo operas. The first act is continual delight, with the effervescence and absurdity streaked with genuine feeling. The second act has its points, but after the quintet the libretto strays into lengthy episodes concerning the appointment (to keep him from being a nuisance) of Isabella's hanger-on, Taddeo as Kaimakan or lieutenant to the Bey of Algiers and the bogus enrolment of the greedy Covent Garden debut, the imaginary tribe of complaisant cuckolds dedicated to eating, drinking and sleeping.

To these ceremonies we may have lost the key. Perhaps Rossini himself felt a certain lack of interest. The comic verve is undimmed but for once he runs out of tunes. Isabella's patriotic number, sung when she rallies her stranded compatriots to escape from Algiers with her and her adored Lindoro, is a different matter. This outburst of national feeling (at an early stage of Italian history) has the power, when sung well, of pulling the end of the opera together.

Covent Garden's Isabella, star

of the Jean-Pierre Ponnelle production unveiled on Saturday (and already seen at the Vienna State Opera) is Agnes Baltsa. The Greek mezzo soon dispels any suspicion that the opera might be overwhelmed by the large house. Baltsa enters backwards, rescued from shipwreck and resembling a drenched governess, but in no time strong personality and vocal agility assert themselves. By the time Isabella reappears, regal in a huge crinoline (the Italian visitors wear mid-19th century clothes, the locals are fairytale oriental) she is in full command of the stage. In the reprise of *Per lui che adoro* the singer holds the house on a thread of tone.

The final pages of the patriotic aria tried her as well they might. In the first part Baltsa was severe, rather as if Isabella was demanding the return of the Elgin marbles. There is a certain monotony of vocal colour, the quality good but undeviating.

As Mustafa Bey the Italian bass Paolo Montarsolo, well remembered from Glyndebourne, makes a belated but welcome Covent Garden debut. His full-size portrait of an enterprising old rascal - selfish, stupid, lecherous, credulous - deserves study by younger singers with buffo ambitions. Montarsolo has an engaging way of clearing the vocal hurdles (those fiendish triplets in the Bey's aria, for example) set up by Rossini for his first Mustafa. Filippo Galli, as if they didn't exist.

Deon van der Walt takes the tenor role of Lindoro, phrasing notably well even when the cruelly high tessitura pinches his tone, as it does in the second aria. Alessandro Corbelli gives a pearl of a performance as Taddeo, one of those Rossinian bari-

tone characters who are either involved in the action against their will or who observe it from the outside - one wonders if the composer identified with them. Mr. Corbelli's easy, crystal clear diction is a treat. Frederick Earle does all that can be done for pirate Haly. Judith Howarth as the scorned wife Elvira, and Anne Masonner, Zilma, give strong support.

The production has been staged for London by Sonja Fritsell. The touch, with the exception of one or two details such as Isabella's snatching from Mustafa's plate of pasta (out of keeping with Miss Baltsa's general reading of the part) is light, even in the hilarious but dangerous first act finale. Ponnelle's setting, a handsome architectural framework with a central opening for more distant prospects (including a toy shipwreck) is less overpowering than some of this fertile producer-designer's inventions. The chorus of eunuchs, singing stately in the tenor and bass registers, is gaudily robed or rather half-robed, with sagging, naked false bellies.

It is the conductor, Gabriele Ferro, who lends the evening its greatest distinction. Ferro has the gift of bringing the sparkle in Rossini not from outside with applied varnish but from inside the music. Some speeds are fast but there is no rush or clutter. The score, to its great advantage, has time to breathe. Ferro's shaping of the scene where Isabella and Lindoro shyly recognise one another, a page worthy of Mozart at his most penetrating, was a lesson in Rossinian interpretation. The woodwind shone brightly.

The show, sponsored by the Cliff Foundation, was enthusiastically received.



Paolo Montarsolo and Agnes Baltsa

Stars/Watermans, Brentford

Martin Hoyte

Outside Projects is the name that four of the Royal Shakespeare Company's brighter young up and comers have given to their ad hoc company for small-scale productions in the cold outside world. Their brave enterprise can be seen for another week at the Watermans Arts Centre at Brentford.

In a short four-hander by Stephen Lowe we see how selflessly Rosie Timpson (so good as the warty dedicated little northern nurse in the RSC's Chernobyl play, *Sarcophagus*) can age 30 years, note how Cornelia Hayes looks more than ever like Meryl Streep's younger sister, and watch the promise of such intelligent actors as Tom Knight and Nicholas Colelet.

The problem lies in the play itself. *Stars* never seems quite sure whether it's opting for sitcom, absurdist fantasy or bitter-sweet *Brief Encounter*-type wishfulness. Dick, the cinema manager in a war-battered blacked-out British town (it is 1944) interviews the applicant for the

usherette's job in intermittent American, happily laying on the clichés about breaking into showbiz and even bursting into "I only have eyes for you" to the bewilderment of the girl who has her own ideas about glamour ("Oo the 'ell's Ruby Keeler?"). A parallel couple comprises a fascinating older woman and a young American serviceman who in turn is not quite what he seems. Dreams, disappointments, regroupings, reconciliation and resignation ensue.

So does some fairly uncertain humour; not to mention unconvincing attempts to conjure up a feeling of time and place with references to rationing, scarcity and nylon; and further flights of fancy into Bogartian mannerisms - none of which leaves us sure as to how seriously the characters take their own drama or how seriously we are meant to take them.

Good performances all round. Besides playing the dreaming cinema manager, Mr Knight directs well.

Nottingham season announced

Richard Falman

The gradual emergence of Lucia Popp as a fully-fledged lyric soprano has been one of the more gratifying personal success stories of recent years in the opera-house. At the same time her career as a singer of German Lieder has been continuing locally at the Wigmore Hall was a timely showing of the new vocal potential discovered by this distinctive Czech singer.

She starts with the advantage of a voice that has a character of its own. We do not have here the usual creamy timbre of the typical German lyric soprano. There is a fast vibrato below the surface and the New Year's Day production of the sound that throw up a quite different range of possibilities; and, being the artist that she is, Popp knows how to turn each of them to her advantage.

This recital was also vividly projected. The development of the emotions in Schubert's *Am Sylvia* - nobody could go away feeling this was anything but a delightful way to start the year.

Lucia Popp/Wigmore Hall

Richard Falman

The trouble with James Bond is that, satirically, if not literally, he makes a sitting target. He has been ripe for send-up affectionately, enviously or hostile over the past 20-odd years since his cinematic existence made him as much part of British popular culture as bingo or football violence; and for every occasion that he has escaped a sticky end in fiction, he must have been counted down in comic form countless times in any medium you care to name.

Nevertheless, the Brighton-based Zap Club has sent a genial company to the ICA in The Mall, London to cheer the dismal New Year season with a Bond spoof that contains much good humour, some ingenuity and a few hoary old jokes.

The core of the company is Brighton's Cliffhanger, the alter-

James Bond - the Panto/ICA

Martin Hoyte

extraordinary I didn't know girls could talk!" and his subsequent ruminations on interest in a job co-ordinating playgroups in Camden, and a rather rough first day as he learns the ropes of social service (he has to get a caretaker to load a skip with the 15 kids he inadvocately killed). Fallacies include the insane inner workings of the secret service with an inventor who has come up with such British firsts as a barking contraceptive and who resigns to become a singer-songwriter in the Cat Stevens tradition.

From this you will gather some of the zany and decidedly inconsequential flavour. Physically inventive (no set; though variations are run on handy items of costume like balloons), the production also includes at least one very good joke about journalists.

Arts guide

Music	Opera and Ballet
PARIS	LONDON
Aldo Ciccolini, piano. Henri Demarquette, cello. Brahms, Schubert, Debussy (Mon 6.30pm). TNP-Chatelet (46 83 07)	Royal Opera, Covent Garden: the latest Rossini opera to join the Royal Opera repertory is <i>L'italiana in Algeri</i> . In a new production by Jean-Pierre Ponnelle (Concerts from Vienna). Agnes Baltsa, Paolo Montarsolo, Deon van der Walt, and Alessandro Corbelli make up the cast; that excellent Rossinian Gabriele Ferro is the conductor.
Orchestra de Paris conducted by Carlo Maria Giulini, Barbara Bonney, soprano, Jari van Nes, mazz 20-20-20. Keith Lewis, tenor, with the Paris Orchestra's choir conducted by Arthur Oldham. Bach, Mass in B Minor (Wed, Thur). Salle Pleyel (46 83 07)	English National Opera, Coliseum: Valerie Masterson sings her first Marchallin in the revival of <i>Der Rosenkavalier</i> , with Jean Rigby and Rosa Mannion, conducted by Christian Badae. Further performances of two Jonathan Miller productions of the celebrated <i>Mafia-style</i> . Rigoletto, with John Rawlings, and the inert, dully unfunny new Barber of Seville, with Della Jones's Rossina as the evening's single important saving grace.
NEW YORK	PARIS
New York Philharmonic (Avery Fisher Hall): Zubin Mehta conducting, Yvonne Loriod piano, Jeanne Loriod ondes martenot, Messiaen (Thur). Lincoln Center (974 9494)	Kirov. The temple of classical ballet has brought, with Swan Lake and Giselle, a revelation: the couple Farouk Ruzimatov and Allynna Assymuratova. Palais des Congres (485 0207) until Jan 10.
CHICAGO	WEST GERMANY
Chicago Symphony (Orchestra Hall): Herbert Blomstedt conducting, Ivan Moravec piano, Mozart, Bruckner (Thur). (465 8111)	Berlin: Deutsche Oper: Die Hugenotten features Angela Denning, Pilar Lorengar, Andrea Andonian and Victor von Haem. Der Freischuetz in Johannes Schaefer's production stars Irene Kollo as Max. Die Zauberflöte with Helen Donath, Barbara Vogel, Marti Tavela and Horst Laubenthal closes the week. (34 3811)
TOKYO	Bamberg: Staatsoper: <i>Le Nozze di Figaro</i> is a joint project between Hamburg and Salz-
Tokyo Academic Ensemble, New Year Concert. Mozart, Schumann, Debussy, Franck. Tokyo Bunka Kaikan recital hall (Tue). (651 5012)	burg Mozarteum. The cast includes Linda Pech, Deborah Massell, Ralph Houston and Peter Galliard. <i>Ariadne auf Naxos</i> . Squitronio. A new cast takes over for the second half of the run, with Jose van Dam as Don Giovanni, Cheryl Studer as Donna Anna, Patricia Pace as Zerlina. Also Nureyev's production of <i>The Nutcracker</i> , with scenery and costumes by Pier Luigi Pizzi. The cast includes Ruggero Raimondi, Jean Dupuy, Carol Vaness, Roberto Frantali and Alice Baker. (46 17 55)
Tokyo Symphony Orchestra, Dvork New World Symphony etc. Suntory Hall (Wed). (583 8151)	Trieste: Teatro Comunale Giuseppe Verdi: <i>The Ballets</i> and <i>Naxos</i> . <i>Marsellina</i> by Rolando Peitri. <i>L'Angelo Azzuro</i> , based on Heinrich Mann's novel Professor Urat. (63 19 48)
	Frankfurt: <i>Le Nozze di Figaro</i> has fine interpretations by Edith Mathis, Nene Christoff, Johanne Kuhlmann, Wolfgang Schone and Gile Casamaille. <i>La Boheme</i> , in Schlöndorff's production, stars Adriana Vanelli, Hildegard Heichele and Jonathan Welch. John Cage's production of his two operas, <i>Europeans 1</i> and <i>2</i> , is again offered this week. (25 821)
	Washington: <i>Metropolitan Opera</i> (Opera House). Sir Peter Hall's production of <i>Macbeth</i> conducted by Giuseppe Sinopoli has its first seasonal performances with Eva Marton, Renato Bruson and Samuel Ramey. Les Contes d'Hoffmann. In Otto Schenk's production conducted by Charles Dutoit, features Gwendolyn Bradley, Roberta Alexander, Neil Shicoff and James Morris. Manuel Rosenthal conducts <i>Die Fledermaus</i> in Otto Schenk's production with Barbara Daniels, Judith Blegen, Tatiana Troyanos, David Rendall and Sid Ceasars. Lincoln Center (362 6000).
	New York City Ballet (New York State Theatre). Nikolaus and Les Deux Chorographes with their own companies, Alwin Nikolais and Murray Louis, team up for a five-week season featuring seven programmes, including a number of premieres. Ends Jan 17.
	WASHINGTON
	Washington Opera (Eisenhower). The season continues with the little performed <i>L'Amico Fritz</i> by Mascagni in repertory with Rudolphine. Kennedy Center (254 9870).
	BMS Pinafore (Opera House). Brian McDonald's production stars Ron Moody and Meg Stuss. Kennedy Center. Ends Feb 6 (254 3770).

Mr Toad/Theatre Royal, Bristol

B.A.Young

"The Adventures of..." to give the full title, but the truth is, there are not many adventures. Toad relies mostly on his personality, "oah yeah, we took Toad Hall, at which the audience began to show their sympathies on the wrong side.

Piers Charter-Robinson's script didn't seem to interest the almost-totally juvenile audience much as long as it stuck to Kenneth Grahame. The jokes in Edwardian public-school talk hardly raised a laugh. Either the author or Warren Hooper, the director, evidently foresaw this, for once Weasel with his mike and his black leather jacket had punctured the polite indifference, the last 10 minutes was pure pantomania, with "Oh yes they are" and "Which way did he go" and one of Mr Charter-Robinson's songs on a song-sheet.

What is admirable is the decor by John Elvery, who has designed a series of sets and backdrops that truly explore the Kenneth Grahame quality of the narrative. I take it he did the costumes as well. They contain just enough animal disguise but no more. The author's own music serves its purpose, and the dancing numbers are well done and never too noticeable.

Shared Experience's production of *Zola's Nana*, which has just completed a season at the Almeida Theatre, is to open at the Mermaid on February 8. Adapted by Olwen Wymark with music by Anthony Ingle. Belinda Davison is in the title role.

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Monday January 4 1988

New Year Resolutions

THIS YEAR will bring substantial challenges to world leaders, some already foreseeable and some unexpected. Here are some suggestions for dealing with the former in such a way as to gain breathing space to deal sensibly with the latter.

You first, Mr Gorbachev: declare victory in Afghanistan and withdraw, making sure all Soviet troops are out before next Christmas when the occupation would enter its 10th year. Delaying withdrawal will not make it less humiliating. Remember also that managing relations with the West will be child's play compared to the challenge posed by your most determined and powerful adversary: the entrenched apparatus of a cynical Soviet people. Try to develop the support of a cynical Soviet public opinion that you have same skill in managing Soviet public opinion that you have displayed in your dealings with the West. You have already lost credibility by heaping abuse on Mr Yeltsin, a valued colleague until you attacked him.

Mr Reagan: you have given the US self-confidence through skillful rhetoric and the simultaneous provision of guns and butter. But despite your economic prospectus you have not repeated economics. It is Japanese and German lending, not an American supply-side miracle, that has made it possible to square the circle.

Maybe you consider the credit you have received a reasonable quid pro quo for the security guarantees that US guns provide to these rich former enemies. Maybe you even welcome the losses imposed on your creditors by the collapse of the dollar. But your power to tax foreigners has turned out to be as limited as your willingness to tax Americans. Americans have to save more. If you do not agree to higher taxes, financial markets are likely to do the job for you.

The US is now a debtor country and is going to go deeper into debt - by \$130bn or so this year. Such a transformation in the external position of a great power has previously occurred only in wars. The resultant turbulence of your allies, along with "irragate," has given you the urge to secure your place in history by reaching spectacular agreements with your Soviet adversary. But your place in history is as secure as it is going to be. Do not feel you can secure it further either by reaching new agreements with Moscow in a hurry, or by invading Nicaragua to compensate.

Mr Baker and Mr Greenspan, decide on a level at which you will support the dollar. Indefinite depreciation is one way of escaping the debt burden, but only by destroying US credit and the world's key currency. Depreciation is not a magic formula for adjustment without pain. It does not care about the value of your currency, others will abandon it and you will be forced to borrow in currencies issued by governments that do care.

Clever Soviet leader

As for you, US congressmen, bury the trade bill. While a US negotiating authority for the Uruguay Round might be useful, there is no hurry about it, and it is certainly not worth the rest of what you have in mind. Above all, forget the notion that any trade agreement with the Soviet Union should be stopped after finding it "unfair". You will end up calling everything that goes on in a market economy unfair, just as if you were a bunch of socialists.

Meanwhile, US presidential candidates, remember that if elected you will have to live with what you have promised, during the campaign, however unwise.

EC heads of government, with a clever Soviet leader bewitching your citizens, an indebted US tempted to reach deals over your heads that promise peace and cuts in the defence budget, an undervalued dollar ravaging your industry, and a US presidential election as well, life is going to get very difficult in 1988.

Resolve that this will be the last year in which a meeting of 12 heads of government is needed to set the price of wheat. The identification of Western Europe with a massively distorting agricultural policy has become a joke in very bad taste. As Oscar Wilde would have said, the CAP is the unspeakable preserving the uneatable.

So resolve not to come away from the special February summit in Brussels without a comprehensive agreement on agriculture and Community finance. This means insisting on farm spending, providing a significant increase in structural funds for the benefit of the poorer members, and relate the contributions of member states directly to their respective Gross national products.

With that settled, you can turn to serious matters: the abolition of intra-Community frontiers in 1992, and the maintenance of European security in what may be an age of superpower detente and nuclear disarmament, but will certainly be a period of increasing American unwillingness to foot the bill for European defence. This means insisting on priority for correction of the imbalance in conventional weapons in Europe with a dual track policy of modernisation plus negotiation - similar to that which has succeeded so well in the case of INF.

Debased international currency

Whether you like it or not, Mr Kohl, West Germany will play a pivotal role in the reform of the EC, in the promotion of West European growth, in the adjustment of global current account imbalances, and in the formulation of a European security position. The present is one of those times when not to take action in the fear it may prove wrong is far riskier than to take it.

A similar stricture applies to Japan, Mr Takeshita. Japan's economic adaptability is once again the wonder of the world, but now is the time for decisive leadership in two areas. First, Japan needs to commit itself to free trade by the end of the century. Like Vietnam, Britain, it would find this means not only cheap food but also the ability to enjoy the revenue accruing from overseas investments. Second, Japan should play a major role in solving the debt crisis, so giving the Japanese the opportunity to invest where long term returns should prove highest and allowing developing countries to benefit from Japan's managerial skills.

All governments, but especially the five permanent members of the UN Security Council, you should ask yourselves what more you can do to persuade Iran to bring the Gulf war to an end - it being understood that persuasion needs to combine pressure (arms embargo, oil boycott) with willingness to help Iran, as a bona fide victim of aggression, find non-violent means of redress and guarantee for the future.

Mrs Thatcher, your achievement is to have secured for the future that the Government has a degree of freedom of manoeuvre in domestic and international affairs that your predecessors have not enjoyed since the 1950s.

At home, avoid frittering away that freedom in irrelevancies or worse, such as the introduction of the Community Charge. Abroad, your priority should be Europe. You should do something about your inattention to the Continent where you were seen as a narrow-minded nationalist interested only in cash: De Gaulle without the grandeur. Your image is improving but has a long way to go.

Meanwhile, Mr Lawson, can you manage to prolong an expansion already more than six years old? The UK economy is growing rapidly and seems likely to go on doing so. There is only one justification for tax cuts: a comprehensive and radical tax reform. If you lack the courage, you should be aiming for a significant budget surplus.

You have been a great proponent of exchange rate management and macroeconomic co-operation. You and your colleagues in the G-7 should learn two lessons from experience and put them into effect in 1988. First, international declarations unsupported by a domestic consensus in the major countries created expectations they cannot satisfy and so have become a debased form of international currency. Second, the US will not care about the external value of its own currency as long as everyone else cares more.

Happy New Year to you all.

Martin Feldstein sees further turmoil in financial markets as the main threat to the US economy

DESPITE the stock market crash, it now looks like the US economy will avoid a recession in 1988. The steps taken by the Federal Reserve to assure liquidity immediately after the stock market decline prevented the more general financial collapse that might otherwise have occurred. In addition, the danger that consumers would be so frightened by images of another 1929 that they would cut back sharply on spending during the critical Christmas season has not materialised.

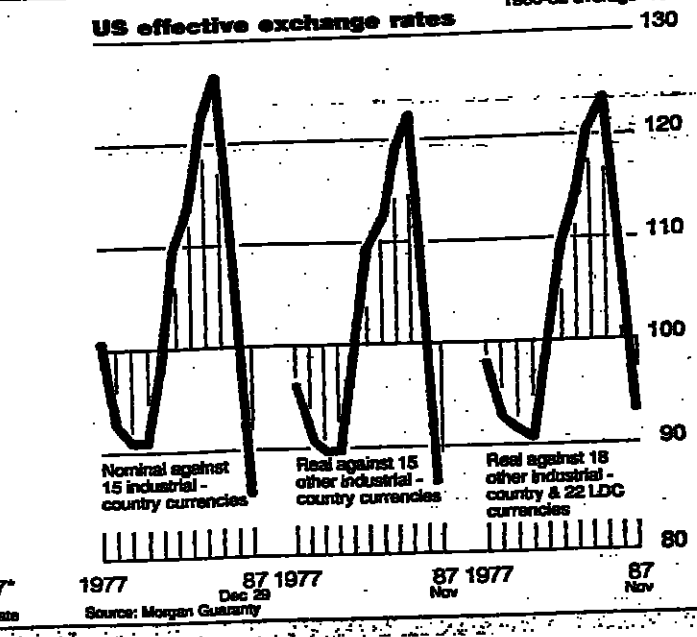
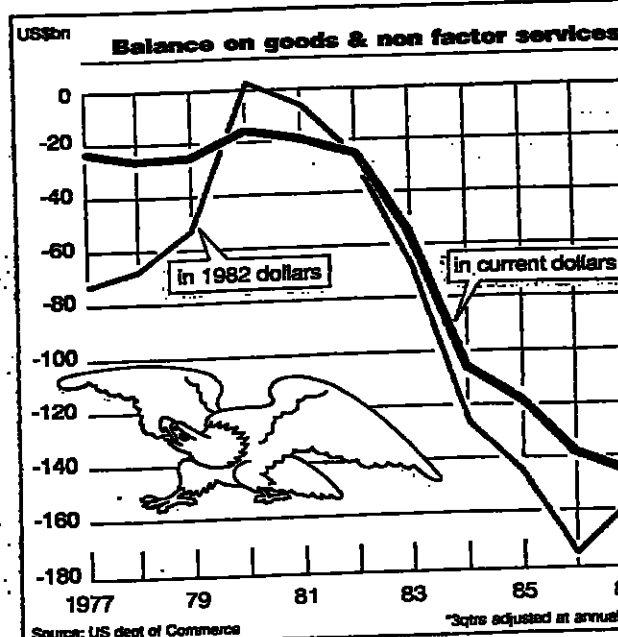
Although the decline in share prices will inevitably slow the growth of both consumption and investment, production and employment are likely to go on expanding in 1988 at a pace that is adequate to prevent any significant rise in unemployment.

The growth of production in 1988 will exceed the rise in domestic demand as the real volume of exports once again increases more rapidly than the volume of imports. The progress that occurred in 1987 in reducing the real trade deficit remains masked by the speed with which the dollar has continued to fall. While the real trade deficit declined by more than 15 per cent between the third quarter of 1986 and the third quarter of 1987, the falling dollar has increased the current dollar trade deficit \$10bn higher. Although such deceptive nominal trade statistics are likely to continue in 1988, the real trade deficit is expected to shrink by about \$30bn in the next four quarters, providing about one-third of the real GNP growth over the year ahead.

This decline of the trade deficit will represent a significant contribution to overall production growth in the US. Nevertheless, the 1988 US merchandise trade deficit will still exceed \$100bn by a substantial margin and the current account deficit will show virtually no improvement from its record 1987 level. The slow pace at which the trade imbalance is being corrected reflects a correspondingly slow adjustment of relative prices between the US and its trading partners. Although the dollar has fallen by 50 per cent in the past three years, this has been reflected in import prices to only a very limited extent.

An important explanation is that foreign producers had built up very substantial profit margins on their US sales during the period when the dollar was rising in the first half of the 1980s. So more recently they could afford not to adjust their prices to the falling value of the dollar, and thus maintain their market shares. But the slow adjustment of the relative price of US imports is likely to continue in 1988 even though foreign companies have reduced their profit margins back to the levels that prevailed before the dollar's sharp rise.

One reason for the slow pace at which foreign prices and the balance of trade are adjusting is the nature of the competing companies. Much of the US trade deficit is in capital intensive industries in which fixed costs are high relative to the labour and material costs of incremental produc-



Source: US Dept of Commerce

Source: Morgan Guaranty

At the mercy of investors

ECONOMIC FORECASTS 1988

Although US companies could eventually be the lowest cost producers in the world of many products even at current exchange rates, foreign companies with excess capacity are now willing to charge prices that are less than their full long-run costs if they can at least cover the incremental costs of production.

As long as American companies do not also have similar excess capacity, the foreign producers will choose to charge prices that maintain their market shares. Only when the time comes for those foreign producers to replace existing capacity will they be forced by the low dollar to relinquish markets to American companies and only then will American companies choose to invest in the capacity needed to supply these markets. Faced with worldwide excess capacities that currently prevail, the US trade imbalance will adjust only very slowly.

The large continuing merchandise trade deficit plus the coming year's interest and dividend payments to Americans owe on the net foreign investment in the US automatically guarantee an equally large inflow of foreign funds to the US. What is uncertain is the dollar exchange rate at which those funds will be supplied.

Portfolio investors are willing to hold dollar securities only when they believe that the rate of return on dollar securities will exceed the rate of return on comparable for-

ign securities by enough to offset any expected decline in the value of the dollar. If they do not have that expectation, the demand for dollar securities will dry up until the dollar has fallen by enough so that its expected future fall is no longer large enough to outweigh the higher yield on dollar securities.

That is just what was happening in 1987. Although dollar bonds paid interest rates of 3 and 4 per cent more than the interest rates paid on German and Japanese bonds, private investors rightly feared that the dollar would fall by more than that differential, making foreign bonds better investments than their American counterparts. During 1987 private investors were therefore net sellers of dollar bonds. Net foreign investment in the US occurred only in the form of equity investments and accounted for only one quarter of the total inflow of funds

from abroad that was required to finance the 1987 US current account deficit. The remaining three quarters of the capital inflow was financed by foreign central bank purchases of US government bonds.

Looking ahead to 1988, private investors around the world are likely to remain reluctant to buy dollar securities at current exchange rates. Despite the recent communitarianist rhetoric of the US administration, the US dollar will continue to fall in 1988 because the fundamental forces continue to imply that the dollar's decline over the next several years will outweigh the higher interest rate on US bonds.

What are those fundamental forces? First, although the decline of the dollar that has already occurred will cause the US trade deficit to shrink further, statistical studies indicate that the real value of the dollar

must decline by at least another 5 to 10 per cent to reach a level that would today be consistent with a long-run trade balance.

Second, the real value of the dollar that would now be consistent with a long-run trade balance would not continue to be consistent with trade balance in the future. Trade experts estimate that the fundamental trends in American and foreign productivity and tastes that have persisted over many years require the real value of the dollar to fall at least 2 or 3 per cent a year just to maintain a trade balance once it is established.

Third, even a move to trade balance over the next four years would leave the US with an accumulated net debt to the rest of the world of approximately one trillion dollars. Unless the foreign investors who have provided this credit are content to treat it effectively as a gift to the US, at least some interest and dividends will have to be paid on that debt and not merely accrued and added to the outstanding stock of foreign investment in the US. Paying some of the interest and dividends would require that the US have not just a trade surplus but a trade surplus.

Achieving such a trade surplus would require that the dollar's value be lower than the level required for trade balance.

The final fundamental influence on the future course of the dollar is the difference

between US and foreign rates of inflation. If the US continues to have an inflation rate that is some three percentage points higher than the inflation rates in Japan and Germany, the dollar must decline by an additional 3 per cent a year just to maintain its real value.

Putting all of these pieces together implies that the dollar must fall by at least another 25 per cent over the next three to four years. That would bring the dollar to less than Y100 and DM120.

Portfolio investors anticipating such a cumulative decline of the dollar over the next few years will not be willing to buy dollar bonds now when their interest rate exceeds the rates on German and Japanese bonds by only three and four percentage points. The dollar must therefore fall by at least another 10 to 15 per cent in 1988 in order to make an investment in dollar bonds a good bet for private investors.

Although the falling dollar will weaken demand and production in Europe and cause its effect on the peace of US economic activity will basically be positive. In addition to the stimulus that a lower dollar provides to exports and to the replacement of imports by domestically produced goods, the lower dollar will encourage increased investment in additional capacity by American companies.

The key risk to the American economy in 1988 lies in the possibility of further turmoil in financial markets. Even if the Federal Reserve increases liquidity at a rate that should be adequate to support the expected expansion of aggregate demand, shifts in investors' expectations could cause a sharp rise in long-term interest rates.

The critical unknown is the political ability of the US Government to reduce its borrowing needs substantially in the early 1990s. The falling dollar will inevitably reduce the future US current account deficit and therefore the flow of foreign capital to the US in the early 1990s. If the level of borrowing by the US Government has not also been decreased substantially by that time, American interest rates will have to rise sharply to reduce the quantity of credit demanded to the available supply.

If investors around the world become increasingly fearful of such a clash between the reduced capital inflow in the early 1990s and continued borrowing by the US Government, US long-term interest rates will rise in 1988. A sharp rise in US interest rates during the coming year would have very unfortunate consequences for equity markets and for the performance of the American economy as a whole.

The performance of the American economy in the coming year thus rests to a far greater extent than usual on the uncertainty and unstable expectations of financial investors.

The author is president of the US National Bureau of Economic Research.

NEW YORK, JANUARY 3

Fun with the Mayor

"The boom is over," boomed Mayor Ed Koch last week, in his characteristically blunt year-end assessment of the outlook for a confused and chastened New York City.

But the Mayor's irrepressible enthusiasm for publicity and his love of political punch-ups that he makes New York's most serious economic crisis since the near-bankruptcy of the city in 1975 sound almost like fun. But with the vultures now blackening out the sun above the canyons of Wall Street, the City's public servants are already beginning to shiver.

Politicians, dustmen and even police officers could soon find themselves competing against stockbrokers for jobs behind the wheels of taxis and behind the bars in hamburger restaurants. It took the Mayor less than two days to react to the October crash on Wall Street by announcing a freeze on all city hiring. But when a sudden recovery in the stockmarket, things could get a lot worse.

Financial services have accounted for 25 per cent of the growth in New York's employment and much more of the incremental tax revenues since 1978, the year the city finally began pulling itself out of its last fiscal crisis. That crisis almost produced the largest bond default in US history and exacerbated a collapse in New York property prices which made Black Monday look like a good day in a bull market. Now the most authoritative forecast for the local economy produced by Crain's New York Business magazine, projects 71,000 job losses - equivalent to nearly a third of the whole decade's employment creation - within the next year. It also finds that the city's tax revenue could fall by as much as \$300m.

For the contrarians, whose theories were so triumphantly vindicated by the explosion of the stockmarket bubble in October, there was an even more alarming portent last week for New York's fiscal future. Standard & Poors, the leading US

Men and Matters

bond rating agency, surprised the financial world by upgrading New York City's debt rating from BBB- to A-As. Jim Grant, editor of Grant's Interest Rate Observer, has pointed out, "Upgrades of the city's debt have tended to coincide more nearly with local economic peaks than with valleys." The City's debt was upgraded into the A category late in 1972 at the top of the last great bull market. Less than three years later, the proud denizens of the Big Apple were suffering the ultimate in civic humiliation.

They were going cap in hand to the despised country cousins in Washington for Federal financial support. Still, there were a few compensations for New Yorkers from those grim events. New York became an affordable place to live again for people other than property developers and stockbrokers. Indeed, there are authenticated stories of Park Avenue apartments being given away for nothing by their distraught owners to anybody who was prepared to take over the huge liabilities for taxes and service charges. Felix Robatyn, the celebrated investment banker who organised the New York bailout, was able to achieve his ambition of saving the city and becoming a major political figure without having to turn his back on his career as senior partner at Lazard Freres.

Finally, when President Gerald Ford rejected the city's insistent demands for financial assistance, partly on the grounds that Wall Street has never been very popular in the American heartland, the New York Daily News got the chance to create one of history's greatest newspaper headlines: "Ford to City: Drop Dead."

can sell Ollie North T-shirts any more and Sylvester Stallone's machine gun-toting Rambo, that erstwhile symbol of macho Reaganite foreign policy, has become the staple diet of stand-up comedians. How will the crash register in the national consciousness?

In the liberal-minded New York enclave of Greenwich Village, a cinema audience unanimously laughed, hissed and booed a preview of Rambo. IV but were conspicuously silent at the end of a showing of Wall Street, the latest offering from the Oscar-winning director of Platoon, an anti-Ramboesque look at Vietnam. Is it that the events of October have not sunk in yet? Or was it just a bad film? Three snippets may help form a judgment.

In one scene, the young broker who takes the rap for insider trading asks his interior designer friend what she wants out of life. She replies: "A Turner, a perfect diamond, world peace." That raised a modest titter from the audience.

Lung power

Two years ago, David Friedland, a state senator from New Jersey, pulled on scuba diving equipment and dropped into the sea off Grand Bahamas Island. He surfaced 10 days ago in the Maldives in Indian Ocean. "He had a lot of lung power," said an FBI agent who helped bring him back to the US last week.

Movie madness

As Presidential election year gets underway, spare a thought for 1987, the year of Irangate and the stock market crash. The verdict is out on the first. No-one

Cop shop

Doing its bit to help balance the trade books, Fuji, Japan's largest commercial television network, has been running an intercontinental shopping-by-satellite programme for almost a year. Prime goods offered discerning consumers back home have included a chateau outside Paris, a classic sports car from Tennessee and bathrobes from New York's Plaza Hotel. In a few weeks time, Fuji will offer an historic piece of New York City itself, a chunk of the old police headquarters.

From the "Edwardian Baroque turn-of-the-century building" on the edge of Chinatown, as the edifice will be described to Japanese viewers, generations of the city's finest had kept the peace. After the police moved into modern headquarters some years ago, the splendid structure had stood empty until an enterprising developer gambled on turning it into 55 apartments. Two worth less than \$1m a piece will be offered to Japanese viewers as a warm up for the main event: a three-storey apartment worth perhaps just under \$2m.

Observer

steadily from 15th to first on the Fed's most wanted list. He had travelled the world first class on a fake passport and money given by friends. Kenya, Venice, Paris, Hong Kong and Singapore were but a few of the places he managed to leave a step or two ahead of law enforcement agents.

But after the first six months, he shook them off altogether. It turned out he had been living in the Maldives with a companion called Colette Gollightly. He brokered his hobby into a business which blossomed into a chain of five scuba stores through the islands.

The locals, growing tired of his outrageous high life style, began to keep an eye on him. His cover was blown by Interpol just as he finally overstayed his welcome. Drawing on a trick he must have learned from the Mob, he posed for a postcard in his scuba gear feeding, with food held in his mouth, a live shark.

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Some pleasant surprises ahead

Alan Budd on the prospects for the UK economy

"THIS IS clearly a time when economic forecasting is a more than usually hazardous business." That is the kind of phrase which novice forecasters include in their first draft reports. Their more experienced colleagues cross it out and explain patiently that forecasting is always hazardous and that present difficulties are no greater than usual.

But I am quoting from UK Chancellor Nigel Lawson's speech in the House of Commons introducing the Autumn Statement. If his Treasury officials let him say it we must believe that forecasting is exceptionally difficult at the present time. Indeed it is.

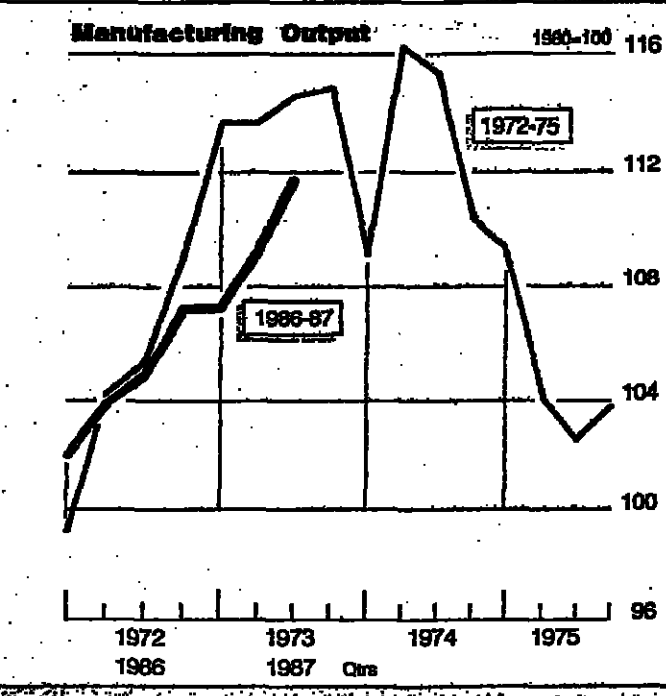
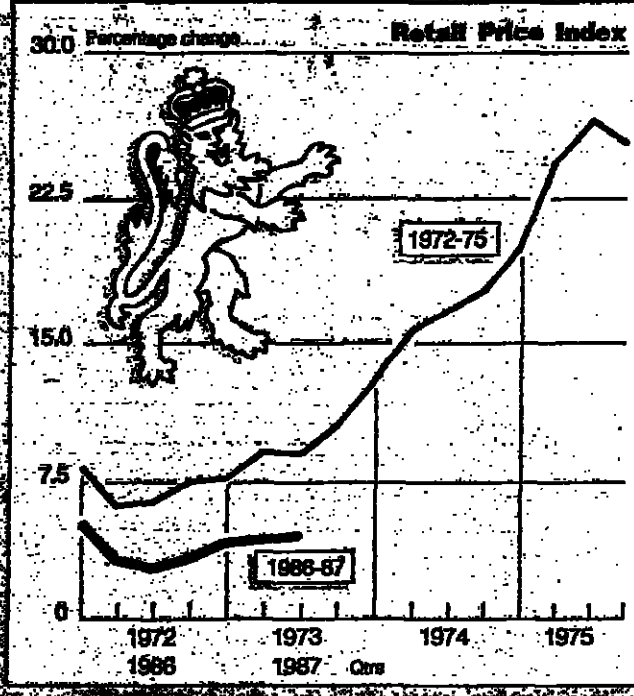
We have had an exceptional post-war collapse of almost all prices and cannot be sure about its cause and consequences. Nor can we be sure that there are no further falls to come. We have uncertainties about US policy and about the dollar which may be about to tumble. In the UK we have been experiencing an exceptional boom and we cannot tell how long it can be sustained without serious consequences for inflation.

I believe that 1988 will be a year of steady growth and low inflation. Growth is likely to slow to 3 per cent from the 4½ per cent experienced in 1987, but that should be a welcome relief from the over-zealous pace of last year. Inflation should stay at its current rate of about 4 per cent, but it is prospects for inflation that give the greatest cause for concern.

Were it not for the stock market crash there is no doubt that the main story about the British economy would be the economy has been growing remarkably rapidly. Between the second and third quarters of the year the total economy was growing at an annual rate of well over 7 per cent in real terms. In October manufacturing output was 6 per cent higher than a year earlier.

This rapid growth has been accompanied by a welcome fall in unemployment, but the news that this is the fastest recovery since 1978 should make us extremely nervous. The boom of 1978 was followed by two years of falling output and an acceleration of inflation to over 25 per cent. Should we fear the same consequences now?

A year ago I wrote: "It is not inflation in 1987 that should give cause for worry, but the prospects for inflation in later years. Britain knows from bitter experience that it is almost impossible to check inflation once momentum has built up." At that time there was a risk that the government, in its anxiety to win the election, would be over-generous in its Budget and would add to demand at a time when it was growing rapidly of its own accord.



In the event the Chancellor of the Exchequer was able to be both cautious and generous. He was able to cut the standard rate of income tax by 2p and to announce a figure for the Public Sector Borrowing Requirement which was smaller than most people expected (and it will turn out to be even smaller).

Demand has roared ahead but so far there has been little sign of accelerating inflation. Growth in 1987 is likely to be 4½ per cent, but inflation will be close to my forecast. It is simply the calm before the storm, with an inevitable explosion of inflation next year, or should we now recognise that this has become a remarkable economy, well able to grow rapidly while inflation stays low?

of fiscal policy. It is true that growth has been helped by a rapid growth of credit, but there is all the difference between a credit expansion which is financing a self-generated private sector recovery and one which has been prompted by government action.

Among other things, credit may have been growing rapidly but it is extremely expensive. Also there is no question of seeking to suppress inflation by an incomes policy. Finally we have seen the remarkable transformation of British industry which has raised our sustainable rate of growth.

However, comparing comparisons with 1978 should not suggest that there is no danger of inflation. A year or two later, the disastrous consequences to appear last time. We need to be sure that the Government has both the motive and the means to control inflation. Its strategy is based on monitoring and controlling the growth of Money GDP. It does not set explicit

targets year by year, but its figure for the current financial year (as presented with the Budget) was 7 per cent. At the moment GDP seems to be growing at a rate of more than 8 per cent a year.

So far the extra growth is appearing in the form of real output rather than prices, but if inflation is to be avoided, the growth of money GDP will have to be brought down to a rate which is consistent with the UK's sustainable growth and a low rate of inflation. The question is whether this will happen automatically or whether the government will have to act to slow the growth

exports this year are no longer evident. The fall in share prices should further help to slow demand.

We estimate that a fall of 30 per cent in share prices cuts the growth of consumer spending by about ½ per cent over a two year period. But the 1 per cent fall in interest rates since then could well offset that "wealth effect" completely. The more important (and more difficult) question is the reaction of businesses. One would expect the fall in share prices to have at least some effect on capital spending decisions, since the cost of equity funds has risen. If there is a serious loss of confidence the consequences could be much more severe. Surveys reported since the share price collapse, including those conducted by the Confederation of British Industry, suggest that confidence has not been dented. On balance I believe that the combined effect of the share price collapse and the subsequent cuts in interest rates will slow consumer and investment spending slightly.

Developments in 1988 will depend partly on the world economy and on government policy. The world economy has been growing quite briskly in recent months. Perhaps we have at last seen some of the long-postponed benefits of the

oil-price fall. I also believe that the greater exchange rate stability (precarious though it was) achieved by the Louvre Accord helped. Though it provided a welcome pause after the exchange rate gyrations of earlier years, the Louvre Accord was bound to fail. It tried to defend a value for the dollar which was too high, given the domestic policy of the United States.

Since Black Monday the dollar index has fallen by 8.4 per cent, there has been an agreement to cut the US deficit and American interest rates have risen relative to those in the rest of the world. I believe that the policy shifts and the fall in the dollar have produced more favourable conditions for a period of exchange rate stability. (Though I also recognise that reputable US commentators expect a significant further fall in the dollar.) There is no reason why the necessary adjustment of US policy should cause a recession there, or anywhere else. The United States needs to improve its trade balance and reduce its domestic demand. If we are to avoid a recession we need to see the opposite shift in the rest of the world. Much of the adjustment can come automatically through lower inflation and an improvement in the terms of trade as the dollar falls. Growth in the OECD economies as a whole may slow slightly compared with 1987 but there is little need to fear a recession.

In the UK, government policy has been concerned with keeping monetary growth (as measured by M0) within its target range of 2 to 6 per cent while keeping sterling below DM3. At times it has seemed that the two policies might conflict; confidence in sterling has threatened to push the

ECONOMIC FORECASTS

1988

exchange through the DM3 barrier while monetary growth has been accelerating. The fall in oil prices has removed some of the pressure from the exchange rate and the government will no doubt accept some further decline in the rate if oil prices fall further.

In his next Budget Mr Lawson is likely to report that the Public Sector Borrowing Requirement for 1987-8 was zero, or even a surplus. If the past is any guide, his PSBR for 1988-9 will be no larger than the announced figure for 1987-8. If by Budget time he takes a more cautious view of 1988 than was presented in the Autumn Statement and if there is a sharp fall in oil prices, he might, exceptionally, allow it to rise to £2bn. Our calculations suggest that the Chancellor can cut the standard rate of tax by 2p and still have a zero PSBR in 1988-9.

Against that background I would not expect the pattern of demand in 1988 to be greatly different from that in 1987. Real incomes are likely to rise by slightly more than 4 per cent and consumer spending will rise by about 4 per cent. Investment rose strongly in mid-1987 and I expect growth to resume this year in response to the increasing evidence of capacity shortages.

Prospects for foreign trade are not as favourable as they were in 1987. The world economy will be growing less rapidly and we shall, at best, be maintaining our competitiveness after last year's rise in the exchange rate. Export growth

is likely to fall below the growth of imports. Some further deterioration in the balance of payments is likely but it should readily be financed by capital inflows.

Some find it difficult to believe that we can grow faster than the rest of the world without a balance of payments crisis; but if our growth is based on more favourable supply conditions then we can certainly do so. If the economy grows by 3 per cent we cannot expect the recent rapid falls in unemployment to continue, but the signs of skilled labour shortages suggest that we need supply-side solutions rather than a rapid growth of demand to bring unemployment down further.

To return to the threat of inflation. The underlying growth of earnings for the whole economy is now estimated to be 8½ per cent; in manufacturing it is 8 per cent.

Those growth rates partly reflect increased overtime and the widespread rise of productivity payments; in that sense industry has been able to afford them. If those rates continue against a slow growth of output and a fairly stable exchange rate, the consequence is likely to be higher unemployment rather than higher inflation. An important difference between now and the early 1970s is that at that time employees were trying to gain real increases in pay from employers that could not afford them. As a result rapid increases in pay and an accommodating monetary policy led inevitably to inflation. This time companies can afford the pay increases but they do not guarantee there will be jobs. Finally, in our general assessment of 1988 we must remember that each year the British economy manages to exceed the expectations of all but the most optimistic of our forecasters. There is something happening out there which the conventional approach seems to miss. We can expect further pleasant surprises in 1988.

The author is Professor of Economics and director of the Centre for Economic Forecasting at the London Business School.

Percent	1987	1988
GDP average estimate	4.5	3
GDP excl oil	5	3.5
Consumers expenditure	5	4
Fixed investment	4	4
Exports	6	4.5
Imports	7	6
Retail Prices 4th qtr	4	4
Balance of Payments £bn	-1.5	-2.5
Unemployment million excl school leavers	2.6	2.4

Is this simply the calm before the storm, or should we now recognise that this has become a remarkable economy, well able to grow rapidly while inflation stays low?

ECONOMIC FORECASTS

1988

What's a few percentage points?

A lighter view by Eric Roll

new play, he said: "We don't believe in these catchy short titles. See what trouble some people get into when trying to find a short name," he added, with a chuckle. "Ours will be called Continued Steady Growth (though maybe less than last year), no budget deficit, lower taxes but maybe some foreign deficit. Andrew Lloyd-Webber is already busy composing the music."

2. March 1. In a strongly worded statement the Bank for International Settlements in Basle urged the commercial banks of the world to "do some fresh sovereign lending, particularly to the newly industrialised countries of Latin America; otherwise they might provoke the very collapse which they fear." One spokesman, who did not wish to be named, said: "There is no doubt that in recent years the banks have behaved very foolishly; we must now make sure that they go on behaving very foolishly."

3. June 1. In a strongly worded statement, the Bank for International Settlements in Basle said that

"Undoubtedly the quality of the assets of many commercial banks has seriously deteriorated. They must make more provisions and apply more rigorous prudential standards." When asked how the banks were supposed to reconcile this statement with one made three months earlier, a spokesman said "That is their funeral."

4. August 1. The British Treasury denied vigorously that Her Majesty's Government had any policy in regard to exchange rates. "What are markets for?" said a Treasury spokesman.

However, a strong rumour persists in the City that the Government is shortly to introduce legislation banning all electronic equipment, including pocket calculators, in foreign exchange dealing rooms, and imposing the compulsory use of the abacus. This, it is said, would slow down foreign exchange dealings sufficiently to make exchange rates less volatile.

A source close to No.10 added: "It is hoped that it will also put a stop to the constant nagging from some

quarters for British adherence to the exchange rate mechanism of the European Monetary System. With the abacus there can be no question of being tied to a deflationary or an inflationary D-mark."

A spokesman for a well-known merchant bank who did not wish to be identified said: "This is typical. It will make New York, Zurich, Frankfurt, Singapore, Hong Kong, Tokyo and even Paris more important than they already are. It will put hard working and well-paid foreign exchange dealers in London out of work, and it will reduce our invisible exports."

5. October 1. The Bank of England denied vigorously any suggestion that it had any policy in regard to interest rates. "What are markets for?" said an anonymous spokesman.

However, it has come to light that several members of the staff of the Bank have received medical treatment for a painful condition of the right elbow. No organic reason has been discovered and doctors believe that this condition is due to the increasing practice of "angling" money markets.

A Labour MP is to ask the Chancellor whether future entrants into the service of the Bank will be made aware of this new occupational hazard.

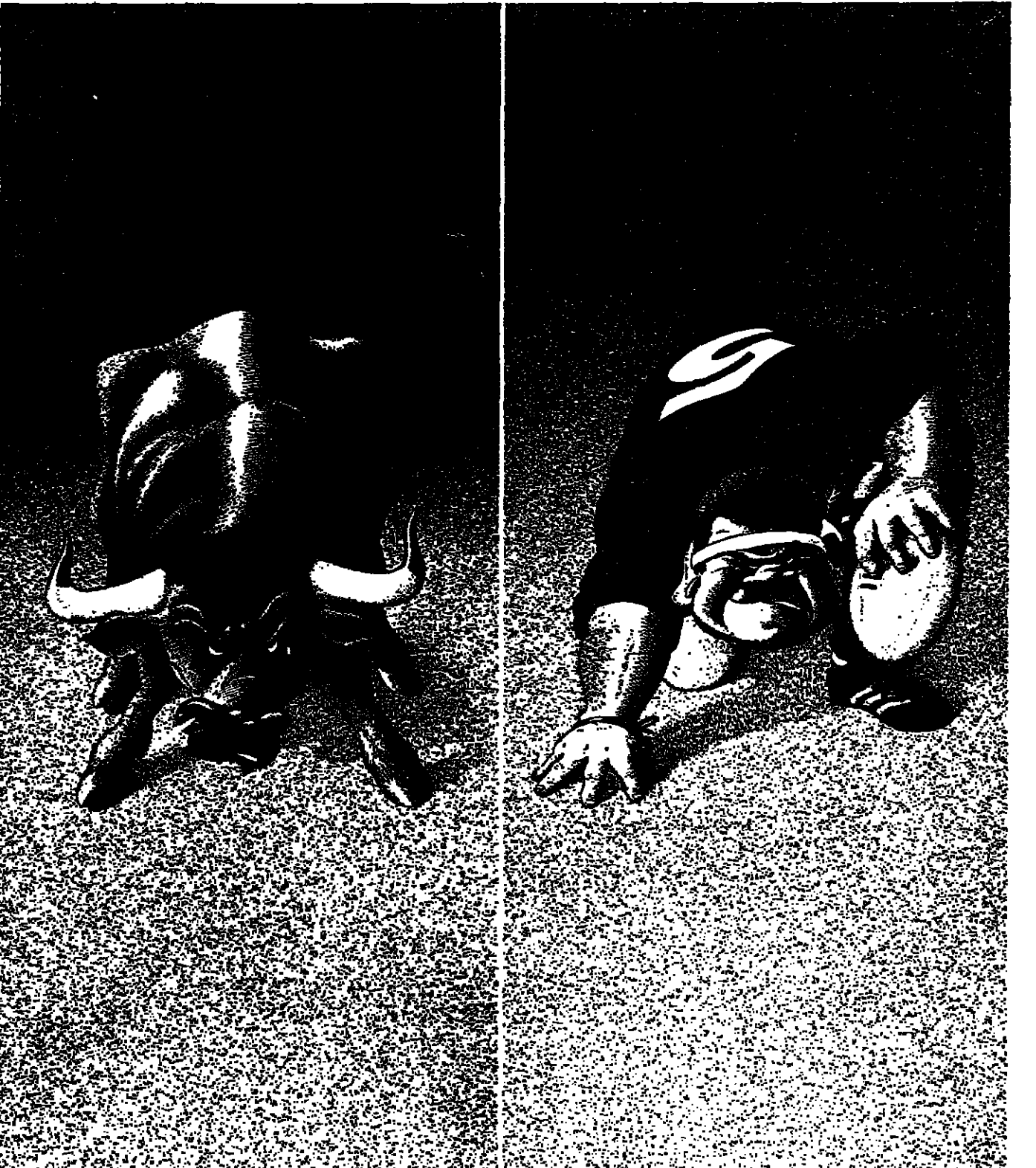
6. December 1. The Treasury announced that it was giving up forecasting and that it had donated its model of the British economy to the Finance Ministry of a Central African state.

In announcing this development, the Chancellor said: "This is entirely in line with our policy of privatisation and the encouragement of competition. From now on we shall rely on the forecasts of the National Institute of Economic and Social Research and the new ones just started by the Institute for Economic Affairs. We shall be better served and the modest fee of \$5 million per annum which we will pay to each of them will be largely made up by savings in staff. Henceforth we shall be a slimmer and fitter Treasury."

Lord Roll is president of S. G. Warburg Group.

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Janet Bush on Wall Street
Forecasters emerge as agnostics

AFTER ALL that the Dow Jones industrial average ended the year 23 per cent higher than it started, a bland little number on the face of it. But 1987 has changed a lot of things. It was the year that yuppie bashing became a national sport. Newsweek declared the 1980s over with a front page headline: "Greed goes out of style." It predicted: "In the days to come we will calm down, lighten up, gain weight, stay home more and pay as we go. And all because the stock market crashed in October? Americans ended 1987 reading a book called The Bonfire of the Vanities (Tom Wolfe's latest) and queuing up to see a proselytising hymn against capitalism - Oliver Stone's film Wall Street.

Who will forget the clip of Stone's wayward young broke anti-hero gazing across the lights of Manhattan from his Upper East Side apartment and musing on one of life's great questions: "Who am I?" The audience predictably laughed. It was the year that risk-taking lost its glamour and brokers' marketing strategies changed overnight. Securities firm Prudential Bache ran full page advertisements with the slogan "Rock Solid Market Wise."

Like all years, 1987 came up with a new strain of jokes. In this case, most of the best humour was at the expense of Wall Street. Did you hear about the merger between Shearson Lehman and PaineWebber? The new firm will be called Shear Paine. (Shearson Lehman, of course, linked up with E.F. Hutton with the loss of thousands of jobs.

PaineWebber went a different route, bolstering its capital by allowing Yasuda Life, the Japanese life assurance company, to take a major stake.

It was also the year that economists were humiliated. Mr Robert Prechter, the prominent Elliot Wave theorist who became a household name in 1987 and exerted such power over expectations in the run-up to and immediate aftermath of Black Monday, admitted his timing had been out.

He had forecast a 3,600 top to the bull market near the end of 1988. He was wrong. The only one, Merrill Lynch, for example, was going for 3,000 on the Dow by the second half of this year.

Even the bears underestimated the size of the market fall which was to come. In July Mr Michael Metz, managing director of Oppenheimer & Co, predicted a huge sell-off of perhaps 300 points compressed into a few weeks.

Who could have expected a 508 point fall in one day? Economists have been markedly humble in forecasting 1988. It is quite refreshing to read so many expressions of complete agnosticism from the forecasting community.

Mr Ned Davis, publisher of an investment newsletter, is delightfully candid. At the beginning of 1987, he forecast a strong stocks rally during the first half of the year followed by a sharp decline in October and November.

The problem was, as Mr Davis puts it, that he did not take his own forecast seriously enough and did not cut back his position sharply enough, soon enough.

"I know if we had stressed our 1987 forecast more forcefully, I would have gotten a lot more headlines, publicity and commissions and I would probably be the leading guru on Wall Street right now."

But what it comes down to is that I'd rather make steady money each year than be considered a genius forecaster one year and a bum the next year" is his epitaph for 1987.

The last week of the year saw the publication of the first major report on the causes and implications of the October crash, marking what will no doubt be only the first stage in a far-reaching philosophical backlash to the heady days of the bull market.

Sponsored by the New York Stock Exchange, the report proposed that stock indices should be traded on the floor of the NYSE, that regulatory authority over all US financial markets be consolidated under one regulatory body - the Securities and Exchange Commission - and that margin and capital requirements for trading in futures should be raised.

Publication of the report immediately provoked criticism - particularly in Chicago, the world centre of options and futures trading, which could stand to lose business if indices were to be traded on the floor in New York.

The report on the crash by the Administration-sponsored Brady Commission, which was due originally to be published today, has been delayed until Friday.

The financial community will have to wait until then for any signs of a political backlash against Wall Street and its satellites.

The political response is crucial for, as 1987 was the year of the crash, 1988 is the year of the presidential election. No Democrat or Republican can afford to side with the yuppies of Wall Street against America's 50m (voting) private investors.

Mexico creditors' bond offer

MEXICO'S international bank creditors have begun complex calculations as they await the receipt this week of documentation inviting them to take part in the country's innovative loan-for-bond exchange offer.

Mexico plans to issue up to \$10bn of new 20-year bonds, of which principal repayment will be backed by its holdings of US government securities, and to cancel in exchange a larger amount of existing bank loans.

The exact amount of debt retired will depend on the bids which banks submit, but could in theory be as much as \$20bn based on the nearly 50 per cent discount to face value at which Mexican loans are traded in the secondary market.

For most banks, the decision on whether to bid will be determined largely by the treatment likely to be given to the transaction by accountants and tax authorities in their respective countries.

Morgan Guaranty, Mexico's agent bank, says it has obtained approval from both regulators and accountants that US banks exchanging some of their Mexican exposure will not have to value at their remaining loans at the implied discount.

Mexico's loan-for-bond exchange offer presents the international banks with a dilemma as they begin the calculations, writes Alexander Nicoll in London

Bankers' guesses on the likely level of bids centre around 70 per cent of face value of the existing debt, largely because most banks have taken loan loss provisions of about 30 per cent. This would be considerably above the 50 cents on the dollar at which Mexican debt has been trading in the secondary market. Mr Michael Milbourn, a director of Standard Chartered Merchant Bank who heads its asset trading group, calculates that Mexico may save some \$137m a

year if the full \$10bn of new bonds are issued. The calculation is based on Mexico buying old debt at 70 cents and issuing the new securities at par. If it did so, it would retire \$14.3bn of debt on which assuming an 8 per cent London interbank financial rate - it is now paying 8 3/4 per cent interest of \$1.26bn per year.

On the new \$10bn of debt, it would pay 9 1/2 per cent or \$952m per year but its effective interest cost would be 11.22 per cent or \$1.12bn per year because it is doing without interest on the \$2bn of reserves which it is paying to the US Treasury as part of the transaction, according to Mr Milbourn.

The offer presents banks with a dilemma. If they put in a successful bid, they would have to take an irretrievable loss, writing off an amount equal to the discount implied by their bid. They would receive a security which, although in theory a dollar and paying a higher interest rate, would also be likely to trade at a discount because interest payments are not US-backed.

Although they would be thought to have received "forced" loans of the type raised repeatedly from existing creditors since 1982, they would also be taking on securities with a longer maturity even than existing rescheduled Mexican debt.

The alternative - forced on some banks because they would feel unable to realise losses - would be to hold on to existing loans in the hope that Mexico's economic policies and debt moves will help to return the country to creditworthiness. They could also hope that secondary market prices will improve to a level enabling them to exchange their exposure for cash instead of becoming involved in the complexities of the auction.

Meanwhile, banks holding a total of more than 50 per cent of Mexico's public sector debt to banks are required to give their approval if the offer is to proceed. They will be asked to waive clauses which prevent Mexico's reserves being pledged to other creditors.

Despite this massive devastation, however, banks were not being asked to approve the issue of debt senior to their existing loans. The new bonds would rank equally with existing loans, though the only likely beneficiary would be the US dollar.

The most visible symptom of the world's worrying financial condition is the US dollar, which begins the new year in much the same way as it began 1987 - very weak. It has been falling for nearly three years and has more than halved in value against the currencies of the world's two other economic super-powers - Japan and West Germany. But despite this massive devastation, however, banks were not being asked to approve the issue of debt senior to their existing loans. The new bonds would rank equally with existing loans, though the only likely beneficiary would be the US dollar.

The US economy, which is entering the sixth year of an unusually long period of economic expansion, has been relying increasingly heavily on overseas investors to finance its chronic budget and trade deficits. Indeed, the recent upheavals in the world's financial markets reflect a growing loss of confidence by overseas investors in the ability of US policymakers to come to terms with the country's deep-seated economic problems. US consumers are spending too much, saving too little and relying on foreign investors to pick up the tab. If confidence is to return to the financial markets, the US needs to demonstrate that it can solve its problems without pushing the world into a recession, or even a slump.

Its ability to provide a convincing answer is complicated by the fact that 1988 is a Presidential election year and there is a danger that Washington will opt for letting the dollar slide further rather than risk precipitating a recession by taking measures to restrict its currency. A favourite doomsday scenario involves a runaway flight out of the dollar forcing a sharp rise in US interest rates, which in turn precipitates a severe recession.

These sorts of fears explain why the world's equity markets enter 1988 in such a nervous mood. The record \$17.6bn US trade deficit for October looked

Fears of Argentine default rise

PESSIMISM is gathering over Argentina's prospects for coping with its foreign debt payments, amid fears that the figures simply will not tally.

A mission from the International Monetary Fund is due in Buenos Aires this week to review progress under the existing \$1.425bn stand-by loan agreement.

The IMF team will hear a swelling chorus of claims that some sort of moratorium on debt service is inevitable this year.

The claims come only weeks after Argentina won a waiver of conditions which it was to have met in order to receive its last stand-by tranche, and days after foreign banks disbursed \$500m under the \$1.95bn refinancing deal reached last year. Argentina's trade surplus is expected to increase this year after a disastrous slide in 1987 - but so is the cost of servicing the \$52bn debt.

Latest forecasts in government circles claim the surplus will move up to \$2.75bn. However, bankers point out the 1987 figure was originally supposed to be about \$2.5bn, but is now reckoned at perhaps \$800m.

Interest payments will rise this year by \$150m to a forecast \$4.65bn. This year, however,

A chorus of claims that a debt moratorium is inevitable will greet the IMF team as it arrives in the Argentine capital, reports our Buenos Aires Correspondent

bankers and officials agree Argentina will not be able to draw heavily on foreign exchange reserves, as it did in 1987. Up to 80 per cent of interest payments last year is said to have been met from freely available reserves, which are now reported to be down to a few hundred million dollars at most.

There is a growing consensus that, without the cushion of reserves, Argentina will be forced into a default sooner or later. Bankers say not just the funds

are missing, but the political will as well. Official efforts to curb the budget deficit - an issue of immediate importance to the IMF experts as they review the Government's performance - are stalling in the Senate.

The deficit was supposed to fall in the second half of 1987 to no more than 2 per cent of GDP, whose total is officially estimated at \$70bn. Instead, it is thought to equalled 4.3 per cent in the final quarter and about 6 per cent in the second half, giving a full-year figure of over 7 per cent against an original target of 4 per cent.

The Government ushered in 1988 with a great move out of the pay and prices freeze imposed in an emergency package as monthly price inflation hit almost 20 per cent last October. Officials claim inflation is now down to about 5 per cent a month and they plan to hold it to 4 per cent this month.

However, the thaw, the deficit and faltering economic growth are already threatened by the promised removal of public sector wage controls. Mr Alfonsín is still waiting for the second half of the economic policy he planned when the emergency package was launched almost three months ago.

the Peronists, beholden to their allies among Argentina's autocratic right-wing union bosses, also want new labour laws.

The impasse at least partly stems from the government's conviction it can only rule by doing a deal with the Peronists, rather than the dozen smaller parties holding the balance of power in both chambers.

The obsession repeatedly costs Mr Alfonsín dear on the economic front. The only highly visible deal so far is a return to free collective bargaining - long a key demand of the unions.

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Saudi Arabia to tax expatriate workers

SAUDI ARABIA, facing its first government borrowing in 20 years, is to reimpose an expatriate-only income tax.

Under the measure, which becomes effective this month and without warning, expatriate workers in the Kingdom will have to pay income tax of between 5 per cent and 30 per cent, depending upon their earnings.

This is the same tax that was levied in the early 1970s against expatriates. Saudis will not be taxed.

Consequently some 30,000 Americans, and slightly more Britons, face large salary cuts.

The British are already suffering because their riyal-denominated salaries are collapsing along with the dollar. The riyal is being devalued against the Kingdom's oil exports are paid for in dollars.

The new tax is expected to generate sufficient funds to overcome a projected SR38bn (\$10bn) budget deficit.

The Saudi unveiled an SR141.2bn budget on December 30, of which SR8bn will be drawn from financial reserves, and SR30bn financed through borrowing. The Kingdom last borrowed 20 years ago under the new borrowing plan, Treasury bonds will be issued on a project basis.

The tax is being sprung without warning was not mentioned in the budget as a revenue earning device and may explain why the Saudis felt free to plan oil revenues that presupposed close Saudi ties with the defunct Opec.

Expatriates who earn SR6,000 (\$1,500) or less a year will be exempt from tax. Those with an annual salary of up to SR26,000 will pay 5 per cent; up to SR 66,000 will pay 10 per cent; up to SR 106,000 will pay 20 per cent; those earning above that will pay the maximum 30 per cent.

The income tax, according to the Council of Ministers' Royal decree, will be paid on "specie and kind". This hits expatriates particularly hard, because many are in the west being paid in dollars, and many have families, plus education for their children, plus airfares to and from their homes and vacations.

But the tax will not only hit the higher paid expatriates. Because air fares will be included in the tax, a Bangladeshi street sweeper who earns perhaps SR170 a month may find his airfare, housing and food allowances will push him into the tax net.

The net effect of the income tax could be an exodus of highly trained westerners - doctors, lawyers and other professionals in Riyadh. Some believe this may be a deliberate intention since it would free high-level jobs for more Saudis and make Saudi workers less expensive to hire.

Rumours that income tax was to be reintroduced first started when the Kingdom cancelled general organization of social insurance contributions for foreign workers early in 1987.

Employees paid 8 per cent, and employees 5 per cent of the pension scheme. The Government said it would reimburse the money, but has not done so far.



Picture by Ashley Ashwood

British Prime Minister Margaret Thatcher and her husband, Denis, yesterday came out to the steps of their No. 10 Downing Street official residence to mark her achievement in securing the country's longest-serving leader this century.

Mrs Thatcher, whose eight years and 244 days in office overcame the record set by Herbert Asquith at the time of the First World War, brushed aside critics of her style of leadership and gave notice that she remains impatient for further radical reforms, writes Political Correspondent Michael Connell.

The Prime Minister's personal milestone was, however, greeted by criticism as well as praise. In a television interview scheduled to be broadcast tonight, Sir John Nott, former Defence Secretary, said she had regularly shown herself capable of "going over

the top" in policy-making, of only being restrained by the people around her, and described her Government as "centralist and authoritarian."

But, he conceded, her achievements were immense and that she might be recognised as one of the greatest prime ministers since the Second World War.

She said that, when she took office in 1979, Britain suffered from the "British disease", but now the world believed that Britain had found a cure and wanted to learn from its achievements. She pledged to push through important reforms and identified three important tasks: to extend the "benefits" of Conservative Government to more people, to play a leading role in world peacemaking and to restore what she described as traditional British standards.

African agenda: Page 8

Israeli air raids kill 19

between the Lebanese army and Mr Waid Jumblatt's Druze militia and coincided with a naval blockade against Druze militia ports imposed by the Lebanese Army in the wake of the defection of a lone pilot in one of its French-made Gazelle helicopters.

The Lebanese Army demanded the return of the helicopter and slapped a sea and air-enforced blockade of the illegal ports of Khaldun and Jiyeh run by Druze and Muslim militias opposed to Mr Amin Gemayel, the country's Christian Lebanese President.

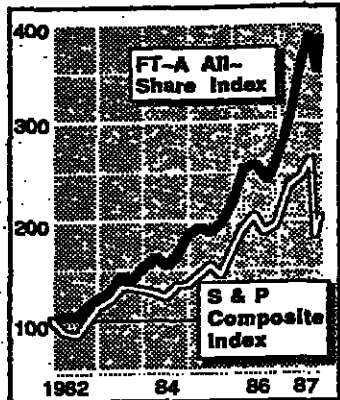
The Druze helicopter pilot's defection from Christian areas to a valley near the coastal village of Damour focused on grievances against the Christian-dominated army.

The pilot complained about religious discrimination inside the military establishment and the still unresolved assassination of Mr Bashir Karami, the former Sunni Muslim Prime Minister, in June.

Mr Karami was killed when a bomb planted under his seat ripped through an Lebanese Army helicopter that had taken off from Adma, a base in the Christian heartland north of Beirut.

THE LEX COLUMN

Searching for a bear market



Was the Crash of '87 just the inevitable correction of an unprecedentedly long and vigorous bull market, or did it mark the beginning of a prolonged bear market for worldwide equities? At this stage all that can be said with any degree of certainty is that almost three months after the collapse, the patient remains in a state of deep shock and is continuing to exhibit a number of worrying symptoms. How these symptoms are treated over the coming months will provide the best clues to the direction of equity and bond prices in 1988 and beyond.

The most visible symptom of the world's worrying financial condition is the US dollar, which begins the new year in much the same way as it began 1987 - very weak. It has been falling for nearly three years and has more than halved in value against the currencies of the world's two other economic super-powers - Japan and West Germany. But despite this massive devastation, however, banks were not being asked to approve the issue of debt senior to their existing loans. The new bonds would rank equally with existing loans, though the only likely beneficiary would be the US dollar.

Unise

The US economy, which is entering the sixth year of an unusually long period of economic expansion, has been relying increasingly heavily on overseas investors to finance its chronic budget and trade deficits. Indeed, the recent upheavals in the world's financial markets reflect a growing loss of confidence by overseas investors in the ability of US policymakers to come to terms with the country's deep-seated economic problems. US consumers are spending too much, saving too little and relying on foreign investors to pick up the tab. If confidence is to return to the financial markets, the US needs to demonstrate that it can solve its problems without pushing the world into a recession, or even a slump.

Slower growth

The US Administration, at least, believes that it has done what is necessary to put its house in order. It is forecasting that economic growth will slow from around 3.25 per cent in 1987 to 2.4 per cent in the current year, and the OECD is forecasting that growth of the major industrialised countries this year will slip by a modest half percentage point to 2.25 per cent. The strength of the price of copper and other industrial raw materials in recent months adds to the picture of a world economy which remains surprisingly resilient.

While world stock markets are looked upon as a sensitive indicator of trouble over the horizon, they have a habit of forecasting more recessions than in fact occur. A recession, tends to be defined as two consecutive quarters of a contraction in economic growth. On this basis official forecasts give no indication of a recession in 1988 or 1989 and corporate profit growth remains strong. The record \$17.6bn US trade deficit for October looked

terrible, but nevertheless there are underlying signs that the US is beginning to make substantial progress in repairing its chronic trade imbalance. In the first nine months of 1987, for example, export volume rose at an annual rate of 18 per cent, and there must be a very good chance that the dollar will bottom out during 1988, which should bolster overseas confidence in holding US paper at some stage. The other good news is that the 37.6 per cent devaluation of the dollar on a trade-weighted basis, over the last three years has done more to help US industry than any protectionist measures the US Congress can pass and has reduced the possibility of a damaging trade war.

Average value

After the recent stock market fall, equities appear neither particularly cheap nor expensive by historical standards. Goldman Sachs, for example, estimates that the world's equity markets, excluding Japan which is a law unto itself, are selling on about 12 times prospective earnings, which is in line with the average for the last five years. However, reference to average levels of valuation will not answer the question of whether a major bear market is beginning to take hold. Bear markets tend to be a response to shocks to the world economic system, such as a sharp rise in oil prices, which dramatically change the outlook for share prices. The big question worrying the world's equity markets is whether the US has done enough to solve its trade deficit, and halt the dollar's slide, or whether the problems will only be solved by the onset of a major US recession, the effects of which will ripple around the world. The answer, which will not be available for several months, will determine whether we are heading for a major bear market.

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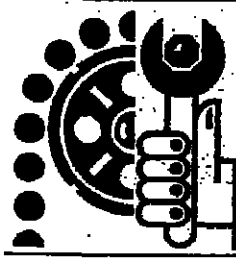
Table with columns for location, temperature, and other weather-related data. Locations include London, New York, Tokyo, etc.

Continued from Page 1

Israeli air raids kill 19

between the Lebanese army and Mr Waid Jumblatt's Druze militia and coincided with a naval blockade against Druze militia ports imposed by the Lebanese Army in the wake of the defection of a lone pilot in one of its French-made Gazelle helicopters.

SECTION III FINANCIAL TIMES SURVEY



Although there are signs that Britain is within reach of a sustained turnaround in industrial performance,

issues such as the fall in equity markets, anxieties about the dollar and the strength of sterling are tempering optimism. In the short term, as Terry Dodsworth, Industrial Editor, reports here.

Output rising strongly

BRITISH INDUSTRY is today reaping the fruits of the bleak period of recession and reconstruction in the early 1980s. The slump in demand that dominated the economy at that time has turned into steady growth and this expansion, coupled with the more cost-conscious and tightly-controlled approach adopted by many companies after the years of blood-letting, have proved a potent mix for the corporate sector.

Reviewing this happy state of affairs a few weeks ago, Mr John Butcher, the Industry Minister, said that Britain was within reach of a dramatic, sustained turnaround in its industrial performance. British companies had radically improved their rate of return on capital employed, he said, and were outpacing their competitors in productivity improvements.

"What you are looking at is the early stages of what could become an economic miracle of the type achieved in the Federal Republic of Germany in the 1980s."

Mr Butcher's optimism is built on some impressive corporate statistics. Profits in the UK today are high in absolute terms, and all the more so since they are not being eroded by the excessive inflation of a few years ago. In the half year to June, the

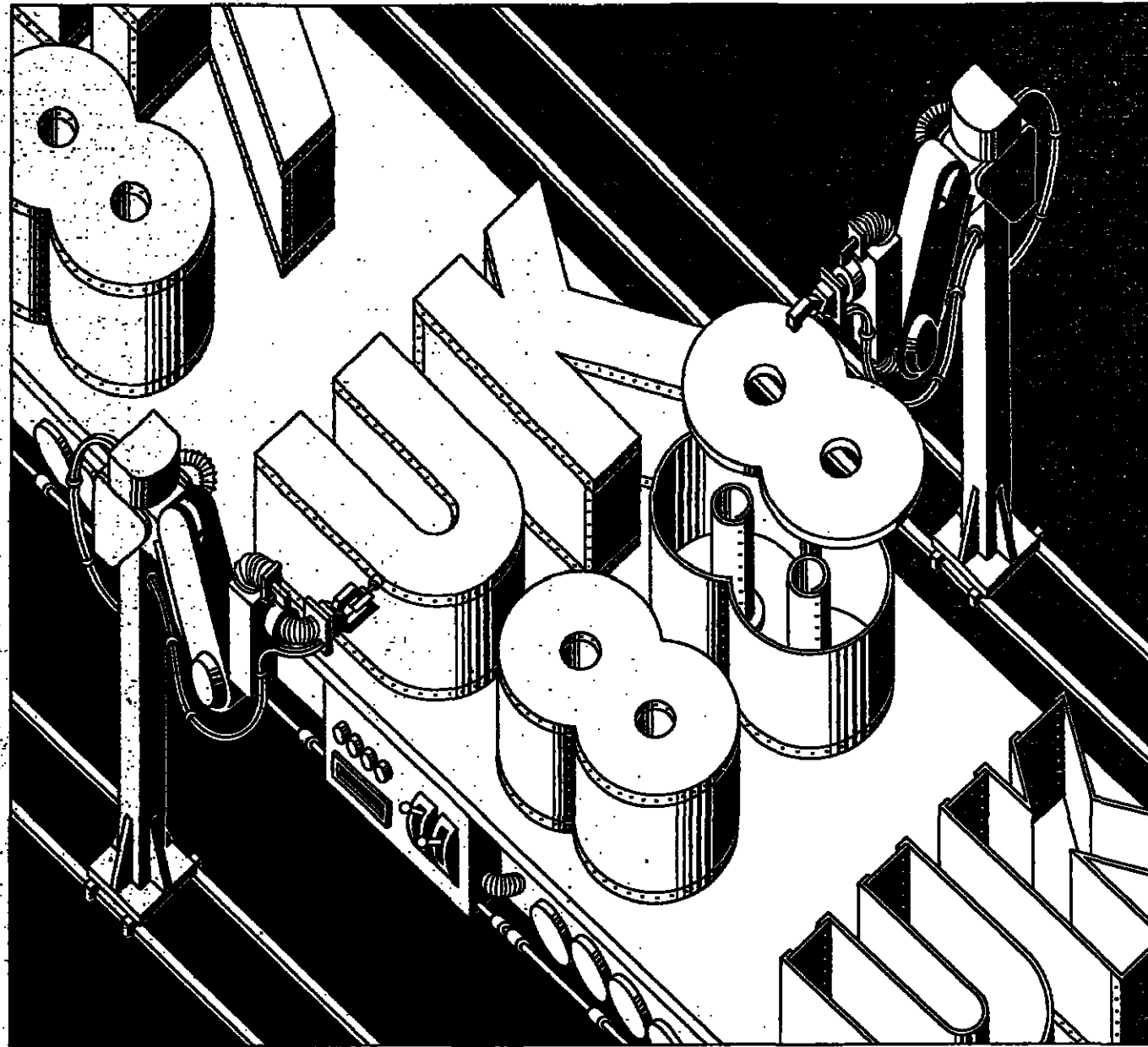
quoted companies in the corporate model of the UK run by brokers Hoare Govett showed a 27 per cent increase in pre-tax profits, and the forecast is for a 24 per cent increase in the year as a whole. This also has pushed up the return on capital generated by British companies to an average of 23 per cent, an increase of 3 percentage points.

Balance sheets are also putting on weight, helped by the influx of cash which these profits have generated. By the end of the year, the UK corporate sector's net gearing - the proportion of debt to equity - will have fallen to well under 10 per cent, a highly conservative level where companies might be said to be under-borrowed.

"If UK companies wanted to gear up to the 30 per cent level they were last at in 1981, they could raise £30bn worth of debt," says Mr Bob Cowell, of Hoare Govett.

Underpinning the clattering cash registers is a boom in production which has crept up almost unnoticed in the last year. Many British companies are working at, or very close to, their notional capacity limits at present - so much so that fears of new inflationary pressures in the economy began to emerge in the summer.

"We are working a four shift



UK Industrial Prospects

system seven days a week, and we are investing in new capacity," says Mr Tony Wright, chief executive of Howson Algraphy, the Leeds-based lithographic plate manufacturer, which belongs to the Vickers group.

Because of the deep capacity cuts of a few years ago, manufacturing output has still not reached the absolute levels achieved in 1978, despite the current boom. But the factory closures, and the high level of unemployment that flowed from them, has had a positive secondary effect in terms of productivity: as output rises strongly with fewer people on the factory floor, the UK has risen near to the top of the league in productivity increase in the OECD area.

This has been achieved, moreover, in an atmosphere of uncharacteristic calm on the

industrial relations front. Strikes are now running close to their lowest level for 50 years, while the number of days lost through industrial disputes has dropped to the level of the early 1960s.

So much for the good news. Not all the developments on the industrial front, however, fall quite into this sunny picture. Indeed, some rather fierce storm clouds have rolled over the horizon in the last few weeks.

The main short-term issues confronting UK companies were the ones which were underscored in the sudden plunge in equity markets around the world at the end of October. These share price falls have raised a mixture of uncertainties - questions not only about the sustainability of present equity markets, but also anxieties about the dollar and the strength of the US

economy. Some of the possible effects on companies are:

■ Many financial groups will be under unfamiliar pressure after a period of high profitability as they cope with more difficult trading conditions.

■ Aggressive takeover-oriented companies will find acquisitions more difficult to finance, even if the price of their targets has fallen.

■ Companies that have invested heavily in the US over the last few years will see a decline in their translated dollar earnings because of the fall in the US currency.

■ Growth in the US profits of British companies is likely to slacken off, quite apart from the currency issue, because of slowing demand in the US. Some economists argue that the effect of the stock market decline on

the overall wealth of US citizens could have quite a serious impact on sales next year.

Not all parts of the UK corporate sector are likely to be affected by these problems. Construction, for example, which has been one of the strongest growth areas this year, is set to enjoy another 12 months of healthy activity in the UK in 1988.

But even in insulated areas like this, the possibility of further share price falls is unsettling and for the economy as a whole it raises an issue which goes to the heart of Britain's ability to compete in the future.

This is the question of the confidence to invest in longer-term growth. One of the most glaring weaknesses in British companies at present lies in the low level of expenditure on plant and equip-

CONTENTS

Economic outlook: It is harder now to bet against the pessimists. Industrial investment: stock market's fall upsets industry's calculations.	Food production and retailing: brewing and distilling sector.
Takeover trends: cash is king in a crisis.	Page 7
Page 2	
Key industrial sectors: the motor industry; aerospace; and the transport sector.	The advertising industry: companies to watch in several sectors: General Electric Company; British and Commonwealth Holdings; Woolworths; T and N.
Pages 2-3	Page 8
The steel industry; shipbuilding; telecommunications; and information technology.	Statistics and charts used in this survey include those from the latest Cambridge Econometrics study: "Industry and the British Economy to the Year 2000," available from 21, St Andrews St., Cambridge, CB2 3AX.
Page 4	
Electronic components sector: domestic appliances; mechanical engineering.	Page 5
The chemicals industry; pharmaceuticals; textiles; the shoe industry; agriculture.	Page 6
	FT graphics by Robert Hutchison and Leighton Morris; design by Frances Trowdale; page one illustration by Grundy Northedge.

ment over the recent past. The capacity constraints that have emerged this year appear to have done little as yet to change the environment; indeed, forecasts of quite modest growth in spending next year are now being trimmed back to between 1.5 per cent and 3 per cent for manufacturing companies.

As one illustration of the problem, machine tool sales in the UK have actually fallen this year. Foreign machine tool producers report that a few leading companies are at last beginning to show an interest in larger-scale orders, but they also say they are shocked by the age of the plant in many British factories.

Significant expansion programmes in British companies are few and far between - projects such as the new plant for Clark's shoes, or Plessey's recently-opened Rotherham semiconductor facility, stand out almost for their rarity value.

In many areas, therefore, it is difficult to escape the conclusion that the rising sales of British goods derive less from investment in new products than from competitive prices, stemming from relatively low wages, and a currency level which, until recently at least, has been competitively priced.

The UK Government's strategy for dealing with this investment problem - the present, hands-off administration refuses to talk about a "policy" - seems to be composed of three separate elements.

■ First of all, it strongly supports the establishment of foreign companies in the UK, encouraging the wide range of business that have flocked in with new activities in machine tools, motor cars, consumer electronics and machine tools.

■ Second, it hopes that these new overseas competitors will serve as role models to British

companies, bringing with them some of the best practices from their own countries. These can feed through into the supplier industries and their direct UK competitors, as well as into UK company management as individuals trained by the multinationals move to British groups.

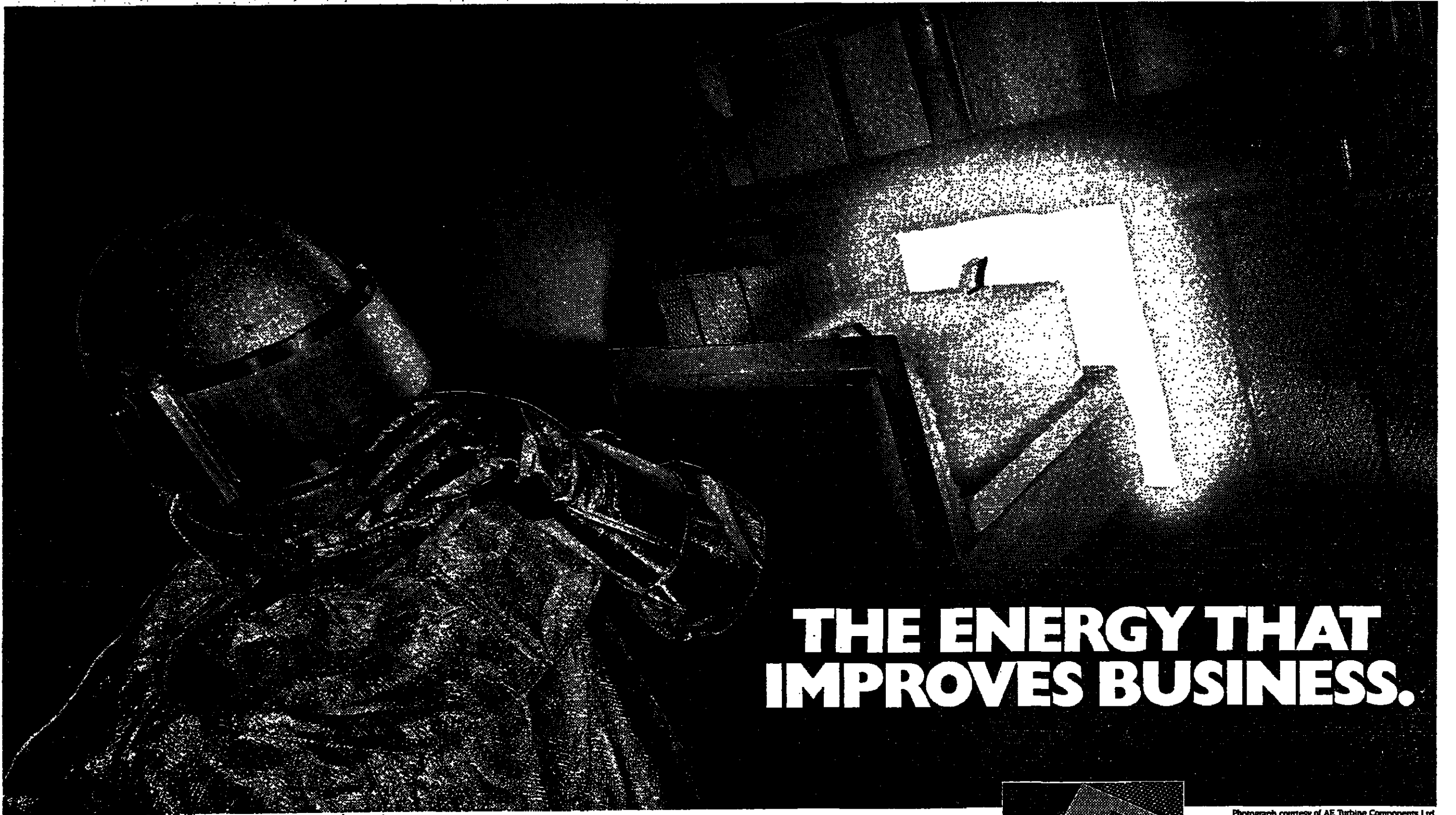
■ Third, the Government is aiming to provide a more stable economic environment that will give companies the assurance that they can make meaningful plans for the future. This is the most tricky element of the policy, since many elements of the trading system fall outside the control of any individual Government.

Nothing illustrates this conundrum better than the recent stock market furore. Are companies that might have been thinking of splashing out on new plant to step up their efforts in the US and recapture some of their market share in Britain, now likely to pause? Is the steady rise in sterling against the dollar reviving uneasy memories of the squeeze that the high rate of the pound imposed in the early 1980s?

Some industrialists concede privately that these fears loom large in their thinking. For them, the reconstruction of UK industry that has gone on in the 1980s has still not moved up a gear into the drive for new products and services that will generate significant volume growth - and, at the same time, make a big impact on unemployment.

"My belief," says Mr Ronald Armstrong, head of the PERA consulting group, "is that, generally speaking, industrialists in this country are worried by fluctuations in financial parameters which they do not control. So if you have movements such as we have recently had in the stock market and in exchange rates, industry tends to back off and do nothing."

G A S F U E L S P R O F I T S



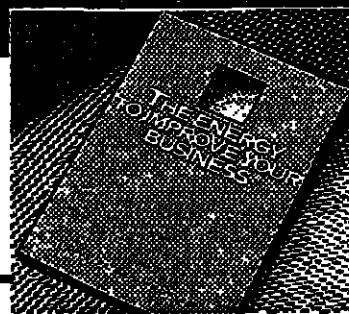
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UK INDUSTRIAL PROSPECTS 2

Economic outlook

Harder now to bet against pessimists

UNCERTAINTY IS nothing new in the economic outlook. But as Britain enters what the Government hopes will be its seventh year of rising output, even the brash economists pundits are hedging their bets.

The stock markets' crash, the turmoil on foreign exchange markets and a deteriorating trade balance have multiplied the usual question-marks over the sustainability of Britain's recent strong performance.

Official concerns, masked by a determined display of public confidence aimed at preventing business from talking itself into a recession, are on two levels. The first focuses on the possible impact on the economy of what has happened already even if financial markets now stabilise. The second more worrying, is that the events of the last few months may be only a precursor to a much more longer period of market instability.

On the first count, the evidence so far is sketchy but relatively optimistic. Last year's sharp rise in economic output confounded the sceptics. A surge in productivity in manufacturing industry showed signs at least of reflecting a genuine improvement in the supply-side of the economy. Unemployment has fallen steeply.

Those published official statistics which cover the immediate aftermath of October's "Black Monday" point to a still-buoyant pace of expansion.

Looking forward, surveys by the Confederation of British Industry and other organisations suggest that industry remains confident that it can shrug off much of the impact of the steep fall in its stock market valuation. Independent economists share

the Treasury's optimism that the impact on consumer spending of the sharp price collapse - the so-called wealth effects - will be limited. The Government may have succeeded in widening share ownership, but direct holdings of equities are small when measured against the personal sector's overall wealth.

The Chancellor's decision to ratchet down interest rates to 8.5 per cent - their lowest level since 1984 - is designed to further underpin industrial and consumer confidence.

In particular, the aim is to ensure that the rise of more than

depends crucially on the assumption that a further stock market crash, a tumbling dollar or the combination of both do not drive the world economy into recession.

It is not an assumption one can make with great confidence. The experience of the past two months suggests that the US Administration is willing to take considerable risks with the markets in the hope of avoiding a significant slowing in the US economy ahead of November's presidential elections.

With the monthly trade figures underlining the seemingly

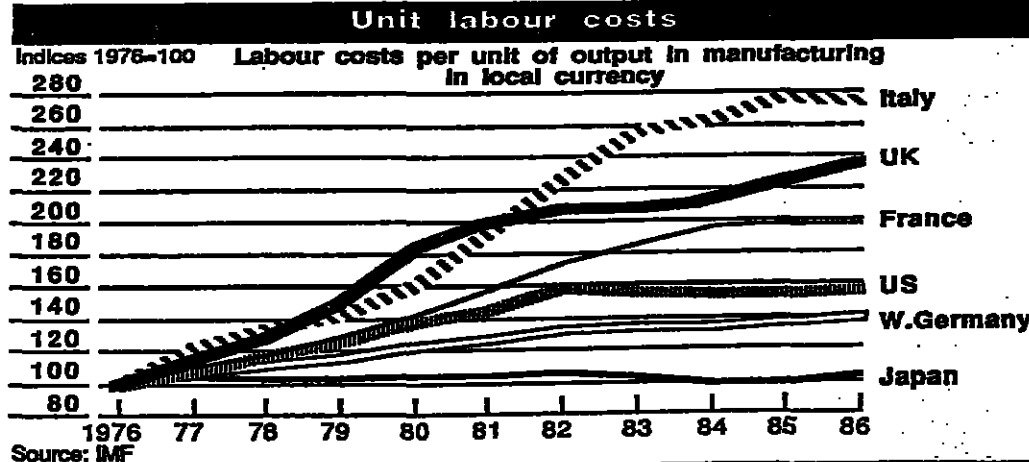
Industry remains confident that it can shrug off much of the impact of the steep fall in its stock market evaluation, according to recent surveys

5 per cent in manufacturing output in 1987 is followed by renewed burst of investment spending after the virtual stagnation of the past two years. Unless there is such an expansion of capacity, there is little confidence that the recent pace of expansion can be sustained without a significant revival of inflationary pressures and a still-sharper worsening in the trade balance.

Against that overall background, the consensus among City and other independent economists is that the economy is likely to expand by around 2.5 per cent in 1988 - markedly lower than the 4 per cent target for 1987, but still above the average of most other leading industrial nations. That assessment, however,

intractable nature of the huge US deficit and the parallel surpluses in Japan and West Germany. Washington is understandably hesitant about committing itself to a further period of dollar stability.

Despite occasional panics on currency markets, the strategy of allowing a steady depreciation of the dollar has so far been relatively successful. If the nominal value could yet trigger a sharp upturn in American interest rates and pull other industrialised nations into recession has not gone away; nor has the possi-



bility that stock markets will lose patience with US efforts to reduce its budget deficit.

In parallel, the speed of the dollar's most recent decline risks reinforcing the damaging impact on industrial confidence of the stock markets' crash - particularly in Europe. Many British exporters to the US are already feeling the squeeze.

In an ideal world, the trade imbalances would be gradually reversed by a combination of US efforts to hold down domestic demand matched by expansionary measures in West Germany and Japan to take up the slack. The evidence since October, however, has been that co-operation in economic policymaking is, at best, fragile.

Even without further shocks, the Paris-based Organisation for Economic Co-operation and Development is forecasting that the pace of growth in Europe is likely to slow to less than 2 per cent in both this year and in 1988. West Germany's performance, crucial because of its healthy trading relative to the rest of Europe, is projected to be even worse.

The Chancellor has some scope to insulate Britain from the impact of such a slowdown. The signs are that the public sector's finances in the 1987-88 financial year will show a surplus for the first time since the late 1960s.

That should leave him with ample scope for tax cuts in the March Budget. The City consensus is that he will have at least \$3bn to spend in cutting both the basic and the higher rates of income tax.

The combination of tax cuts and buoyant growth in real incomes should at least underpin domestic demand in the economy, while lower interest rates and high corporate profits provide grounds for optimism on the investment outlook.

What is far less certain, however, is the extent to which Britain can continue to grow significantly faster than its major industrial partners without an alarming deterioration in its trade position.

The Treasury's forecast of a current account deficit of \$3.5bn next year is widely regarded as both plausible and manageable in the context of Britain's large overseas investments. It is far less certain, however, that financial markets will accept what many economists expect will be a rapid worsening in the deficit during the second half of 1988.

For much of 1987 the damaging impact on competitiveness of the traditional Achilles heel of Britain's economy - rapid growth in earnings - was offset by similarly rapid gains in productivity.

Those gains, however, are unlikely to be sustained at a similar pace in 1988 and, with no sign of any slowing in pay settlements, industry can expect a steady erosion of its competitiveness.

An obvious option for the Government would be to allow a renewed sterling depreciation against other European currencies, particularly the D-mark. On past experience, and despite official rhetoric on the Government's determination to hold the pound close to its present levels, such a devaluation looks inevitable.

Any stable sterling depreciation, however, is likely to rekindle inflation - a weakness in the economy which Mr Nigel Lawson, the Chancellor, has managed to control but not cure. A growing number of City economists is therefore forecasting that, if economic output remains relatively buoyant, then by the second half of 1988 Mr Lawson will find himself having to raise interest rates significantly to hold down inflation.

That in turn could leave unemployment still hovering at close to 6m. The pessimists have been proved wrong before. But it is getting harder to bet against them.

Philip Stephens

Industrial investment

Stock market's fall upsets calculations

IT IS NOT hard to find examples of significant new greenfield investment projects launched in the UK over the last year or two. But it is a great deal more difficult to come across schemes that have their parentage in a British-owned company. Many of the most ambitious outlays on new plant have been by foreign companies - manufacturers such as Nissan, Yamazaki, Compaq, NEC, LSI Logic, AT&T/Philips, and Digital Equipment, to name just a few.

This pattern of investment tells a story. For a start, it indicates a feature of industry which is common to most developed countries today - the increasing internationalisation of production by companies that feel they have to invest overseas. In the US and Europe, there has been a similar drive by foreigners to put up plants, some of them owned by UK companies which argue that the money is best spent there than at home. Even in Japan, a few Western companies are now finding opportunities to set up shop.

Several of these investments also reflect the imposition of trade barriers of one kind or another. Japanese vehicle manufacturers, such as Nissan for example, are facing formal or voluntary quotas in many European markets; semiconductor companies like NEC of Japan, the largest integrated circuit manufacturer in the world, must pay import duties of around 12 per cent in the European Community; and many Japanese component producers are setting

up in the UK to protect their sales to domestic equipment manufacturers which have established local manufacturing sites.

In addition, some supplier companies believe that they need to invest locally to be close to the equipment producers that use their goods. Component companies particularly fall into this category, because the development of new products often depends on a dialogue between them and the users. There is a similar pressure on information technology companies: they often need to invest in locally-originated software development, if not hardware, because of the particular demands of the local market.

Above all, however, the preponderance of foreign greenfield investors underscores the focus of UK industry itself on priorities other than outright increases in capacity.

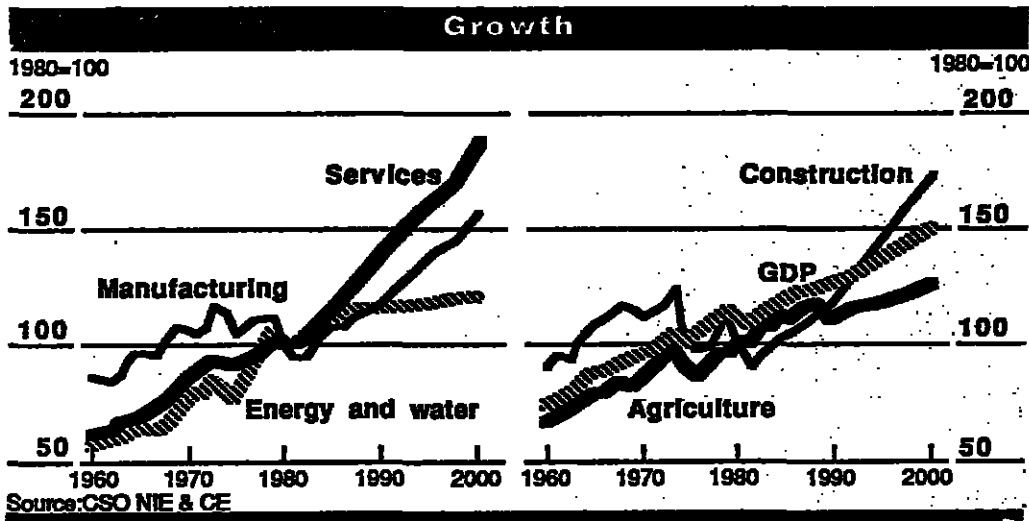
There have, of course, been some expansionary moves. Jaguar's expenditure on new flexible assembly lines and paintshop additions, for instance, is intended to take capacity from around 47,000 to 80,000 cars a year; and Plessey has this year opened its new Rotherham semiconductor facility, the most ambitious project of its kind from a British company for years. But the past few years have been dominated by two issues - capacity reductions in some of the more traditional sectors of manufacturing, combined with a crash modernisation programme which has stretched

across the whole of industry.

Capital investment, therefore, has been channelled increasingly into labour-saving machinery. The new manufacturing lines that have been installed have gone mainly into refurbishing old plants - sometimes at the expense of closures because modern machinery often requires less room in which to operate. Even new plants have not always meant a significant addition to capacity: the opening of the BICC fibre optics cable facility at Whiston, near Liverpool, followed extensive rationalisation of its old coaxial cable operations.

UK companies have, at the same time, been putting a great deal of emphasis on expansion overseas, particularly in the US, where acquisitions are running at around \$16bn this year against \$13bn in 1986 - both of them easily record figures. The stock market crash appears to have put a damper on this trend for the time being, but in the past two years it has undoubtedly deflected cash from investment in organic growth to expansion through acquisition.

This acquisition of overseas assets highlights questions about the trend in UK investment that have become increasingly insistent over the past few years. Following the shake-out of the early 1980s, do British manufacturing companies now have the confidence to try to expand their home base aggressively? Will they step up capacity enough not only to stop the erosion of their market shares, but also begin to



win some back?

Capital investment in the manufacturing sector has charted an extremely variable course over the past 10 years. After the recessionary collapse in the three years from 1981 to 1983, it picked up sharply in 1984 and 1985, rising by 18 and 15 per cent respectively. But this was a somewhat artificial increase, driven by the withdrawal of investment incentives and the need to push through programmes before these tax breaks were cut off.

In 1986, when this stimulus was withdrawn, investment in manufacturing industry declined by about 5 per cent to \$7.1bn, calculated at 1980 prices. Last year, the trend was upwards once again, but was unlikely to reach 3 per cent, and even if it did, total manufacturing investment in real terms will still be well below the peak year of 1979, when it hit \$9.2bn.

Yet, on the face of it, there is considerable incentive for companies to think of capacity additions at present. For several months, many industrial companies have been working close to their theoretical capacity limits. Indeed, fears that the economy might be driven into inflationary overheating - one of the considerations behind the increase in

interest rates in August - were partly based on this high rate of industrial output.

Earlier last year, expectations that investment programmes would follow this strong trend in production, were high. The Department of Trade and Industry's investment intentions survey in the autumn would be roughly comparable to the 1987 figure - suggesting a rise of around 8 per cent in total investment (including manufacturing, construction, distribution and selected services). In the manufacturing sector itself, however, the report forecast a strong increase in capital expenditure intentions of around 11 per cent on the previous year.

These calculations, however, have been thrown into confusion by the sharp fall in the stock market and the suggestions that this could have a follow-on effect in dampening economic expansion. Forecasters are now rethinking their appraisal of 1988, leaving no clear consensus on growth or investment.

Some City economists, for example, believe that the knock suffered by the financial markets is bound to spill over into reduced expectations in industry, and a consequent decline in the willingness to invest. Mr Bill Martin, an economist at the Phillips and Drew broking

group, for example, says that his forecasts have come down to a growth of around 1.5 per cent in investment in 1988, approximately half of last year's expectations. He does not believe that the rise in the cost of equity funds - the consequence of the fall in the market - will be a significant consideration in this decline in expenditure, partly because lower interest rates are making debt financing more attractive. But he expects manufacturers to be worried by doubts over the level of demand.

Other City economists are more bullish. James Capel, for instance, is talking about a 3 per cent increase in manufacturing capital expenditure in 1988; and some analysts believe that, while it is too early to tell how industry is reacting to the stock market fall, the fact that many companies are reappraising their investment programmes will mean some slowdown later in the year because of hold-ups in the approval process for spending.

By reviewing their investment programmes, they are bound to cause some delays in expenditure, probably towards the end of the year, says Mr Peter Deighton, of Hoare Govett. Terry Dodsworth

Motor industry

Dollar weakness puts a spoke in the buoyancy

AT FIRST glance, the UK motor industry is entering 1988 well placed to continue a revival which gathered pace throughout last year.

Figures about to be released by the Society of Motor Manufacturers and Traders are expected to show that last year, for the first time ever, UK new car sales reached 2m units.

This compares with 1.89m in the previous record year of 1985 and represents a rise of more than 400,000 units from the trough of the early 1980s recession. Seemingly, more encouraging still for the UK industry is that the figures will show a share of total sales taken by imports to be down by around five percentage points, to just over half the total. Until a year or so ago, it was not uncommon for the share to be as high as 60 per cent in some months.

Production has been rising sharply. Compared with fewer than 800,000 cars in 1982, output last year is expected to have risen to around 1.2m, an increase of nearly 40 per cent. This upward trend has been prompted by some leading industry figures to proclaim that the UK industry is undergoing a "renaissance".

For example, Mr Sam Toy, former Ford of Britain chairman, was moved to predict, during his tenure of the SMMT presidency, that over the next two to three years UK car production could easily reach 1.5m units a year. Investment in the UK car industry is also substantial - Ford's, for example, is currently running at about \$300m a year. And in the middle of last month Nissan announced a further \$216m investment in its Sunderland, Tyre and Wear, car plant which will double the previously-announced target output in 1992 to 200,000 units a year by adding a second model range (a small hatchback).

Not least, car exports have reversed their long decline. Government statistics to be published in a few weeks are likely to show that they reached around 235,000 units, up one quarter on the 187,556 of 1986. A closer examination shows, however, that the situation is not quite as buoyant as it might appear, and that much of the recovery is based on the not-really-reliable foundations of favourable exchange rates.

Thus, most of the market share gain by UK-built cars was accounted for by Ford and General Motors-owned Vauxhall securing more of their share from UK plants, largely to mitigate the effects of the soaring D-mark. The switch was convenient in more ways than one: political pressure, particularly on GM, for further signs of "good corporate citizenship" by building more cars in Britain had in any case been growing for several years.

Another portion of the UK-built gain was accounted for by the SMMT compiling its statistics. Thus an apparent

drop of about 1.5 percentage points in Japanese imports' share was the result of counting the 23,000 Bluebird saloons built at Sunderland as "British", although they will not qualify for the term in the UK Government's eyes until they reach a minimum "local" or EC content later this month.

Matters are also put into perspective by the fact that the only UK-owned volume cars producer, the state's Rover Group, lost market share last year.

The increase in exports looks modest, too, when set against the fact that there was a \$2.88bn balance of payments deficit in 1986, although the signs are that the statistics for last year will show a small improvement.

Finally, the production improvement about which so much enthusiasm is being generated compares with a peak level of 1.92m in 1972. Just to complete the gloomy side of the picture, the bulk of investment in the industry is being made by foreign-owned companies reaching their strategic decisions outside the UK.

Against this background, prospects for 1988 have been rendered uncertain by both the stock markets collapse and the seemingly remorseless fall of the dollar. The latter is of particular concern to exports-oriented Jaguar as well as to Rover, which is still in its first year of resumed shipments of Rover cars and Range Rovers to the US.

Even without these latest uncertainties, however, the UK industry has been virtually unanimous in its view that UK sales this year would fall back from 1987's record levels.

The question is by how much? Some forecasts made in the immediate wake of the markets crash and suggesting falls of nearly 250,000 units, now look unduly pessimistic given that manufacturers so far claim to have been able to detect no warning signs of reduced business confidence adversely affecting sales to fleet or private customers.

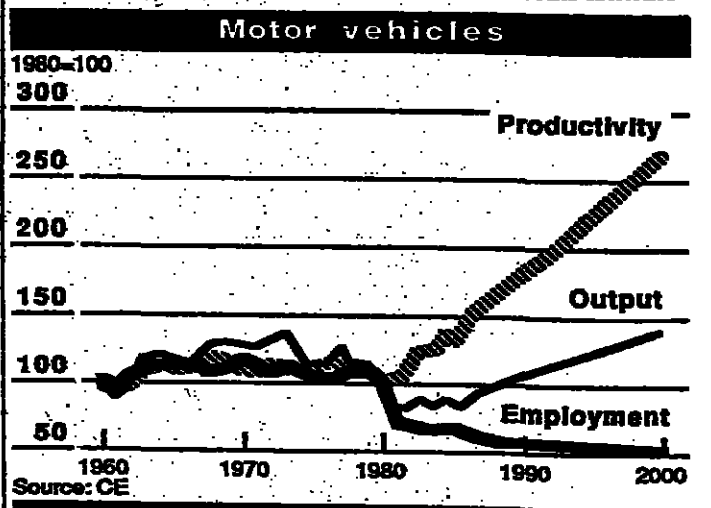
A more likely outcome - at least in the absence of a full-scale world recession triggered by the economic problems of the US - is, suggests the Economist Intelligence Unit, a market of 1.85m, while DRI Europe is projecting 1.82m.

These forecasts take into account the fact that company profits are continuing to increase and projections of economic growth so far are being only marginally reduced, while there are other positive factors, such as falling unemployment and lower interest rates.

However, there are fears that if sales do drop to the predicted level or below, there could well be a new flaring up of the car "corporate citizenship" by building more cars in Britain had in any case been growing for several years.

That would be particularly unwelcome to Rover and Vauxhall.

John Griffiths



Martin Dickson looks at the takeover trends

Cash is king in a crash

THE TAKEOVER wave which has restructured large parts of British industry over the past few years goes into 1988 with its characteristics undergoing major changes.

The stock market crash of last October has had a dramatic effect on the types of company involved, the financing of deals and takeover tactics. It also produced an initial sharp drop in the volume of takeover activity, though the remarkable revival of bids and

strategic stake building in early December demonstrated that the takeover wave is far from exhausted.

That said, the type of predators involved has certainly

changed since October. And while the flow of deals is strong now, the coming year may well see a drop in takeover activity - in value, if not necessarily in volume terms - compared to the

height of the boom from late 1985 to 1987.

Just what prompted the takeover wave of the 1980s has long been a subject of academic speculation. Factors which seem to

have contributed include the aftermath of the recession at the start of the decade, which left those companies which had survived with stronger management and stronger balance

sheets, better able to set out on the acquisition trail.

And this will have been reinforced by the strong bull market in shares, allowing companies on high price/earnings ratios to issue floods of paper to make acquisitions. Fashion, too, because managers observed that companies making many acquisitions got themselves into a virtuous circle: they achieved a reputation for dynamism, which improved their rating, which in turn made them better

able to issue paper. Even before October, the wave had seen some major character changes in the takeover arena: the focus was firmly on bids for other UK companies. No sectors were immune, though some of the largest takeovers were concentrated in the retailing, food and drinks sectors. And the contested bid was all the fashion. It was glamorous to be a merchant bank adviser, rushing from battle to battle, or an entrepreneur, amassing stakes which could decide a company's fate.

All that changed just over a year ago when Department of Trade inspectors entered the headquarters of Guinness to begin their long investigation into alleged share-rigging during the takeover battle for Distillers. Even before the Guinness affair, it had seemed somewhat harder for predators to win contested bids. After Guinness, it was certainly so, and gradually, over the first nine months of 1987, contested UK bids petered out.

Agreed deals did go on, and there was a sudden spurt in the value of bids for American companies, culminating in the extraordinary cheque, yet successful, offers by two small British firms - WFP and Blue Arrow - for the much larger J. Walter Thompson advertising group and Manpower, the staff agency.

But October's crash has changed all that. Former high-flying companies with little

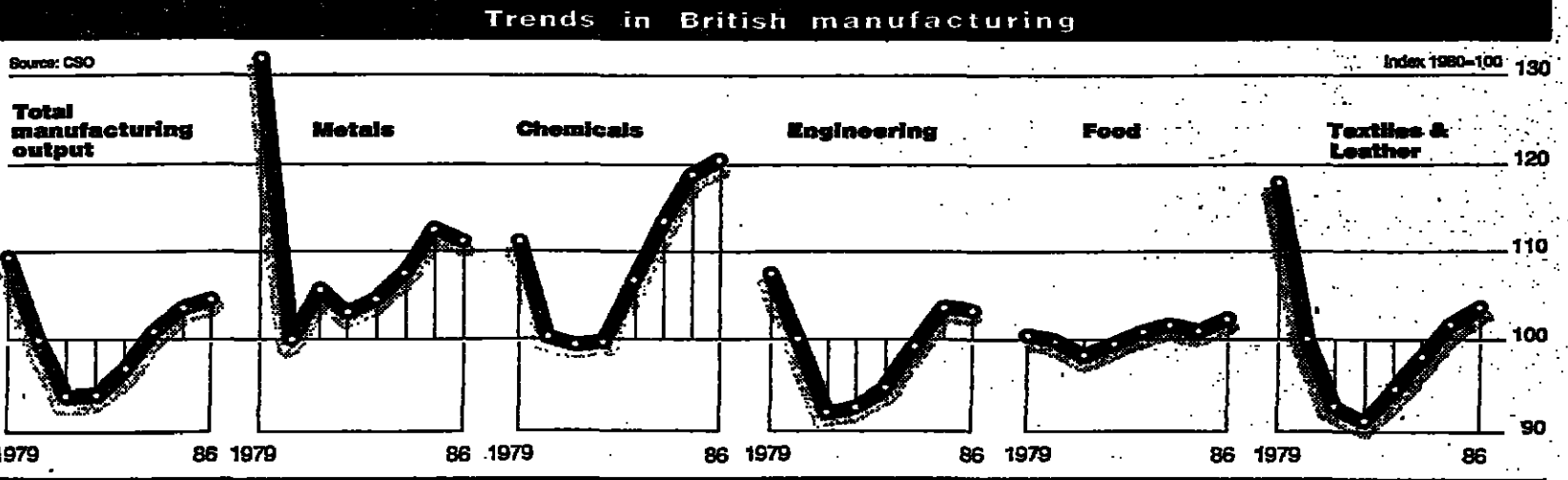
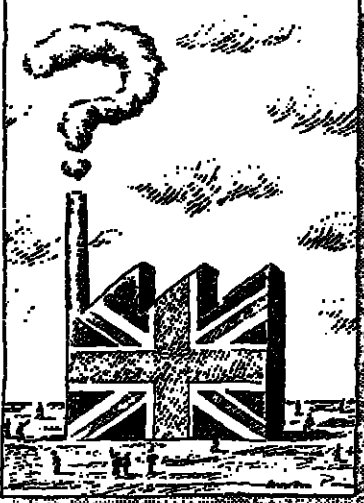
asset backing have seen their ratings slashed relative to the market, severely restricting their ability to issue paper to buy businesses.

One of the most startling examples of the change is the fate of Abaco, a professional services group which, with a string of rapid, paper-financed acquisitions, was one of the market's favourites before the crash. But then its share price plunged to the point where it fell victim to British & Commonwealth Holdings, which already held a 27.5 per cent stake in the group and with which it had close relations. An agreed \$589m bid was launched.

Meanwhile, with the dollar plunging and fears of recession in America, buying companies in the US is suddenly out of fashion. Another predator, the home furnishings group Coltrane, announced very shortly after Black Monday that it was abandoning its plans for a rapid expansion by acquisition in North America, to concentrate on organic growth in its core British activities.

The type of company most likely to be on the acquisition trail in 1988 is therefore very different to that pre-crash. First, it will tend to be cash-rich, since issuing paper is that much more difficult in a bear market.

Second, worthy but rather dull companies, which found themselves outbid for acquisitions in



UK INDUSTRIAL PROSPECTS 3

Aerospace industry enters 1988 with strong trade balance

Upward trend continues

THE UK AEROSPACE industry moves into 1988 on a strong note, with exports running at a high level, a strong positive trade balance and order backlog well in excess of \$20bn.

As a result, the coming year is likely to be more one of consolidation than of innovation, with companies stepping up their marketing activities to win further sales overseas while also fulfilling the substantial export orders already on.

With competition across the entire spectrum of aerospace activity now intensifying worldwide, vigorous campaigns to cut costs and improve efficiency have already been introduced. But that will need to be sustained and even stepped up this year.

For the first half of 1987, according to figures prepared by the Society of British Aerospace Companies, the industry's whole achieved exports of £2.69bn, so that after taking account of imports of £1.7bn, there was a positive trade balance of close to \$1bn.

During the second half of the year, preliminary indications are that the upward trend in exports continued, so that for 1987 as a whole, the industry expects record results, with turnover up in excess of 10% and exports of £4.74bn achieved in 1987, and a much increased positive trade balance.

But although the emphasis in 1988 will be on consolidation, there are still some major new projects awaiting launch, which are considered vital for the industry's long-term prosperity.

These include the long-awaited formal go-ahead for full-scale development and production of the multi-billion pound European Fighter Aircraft (EFA), in conjunction with West Germany, Italy and Spain, which will fill the production capacity left vacant as quantity production of the existing Tornado multi-role combat aircraft runs down in the early to mid-1990s.

Eventually, more than 800 EFAs will be built for the four participating countries, without taking into account the possibility of exports, so that this programme will fill the factories well into the next century, sustaining employment and enhancing progress in advanced technology, especially in such areas as computer aided design and manufacture; in the development of new materials, such as aluminium lithium; and in new production techniques, such as diffusion bonding and superplastic forming.

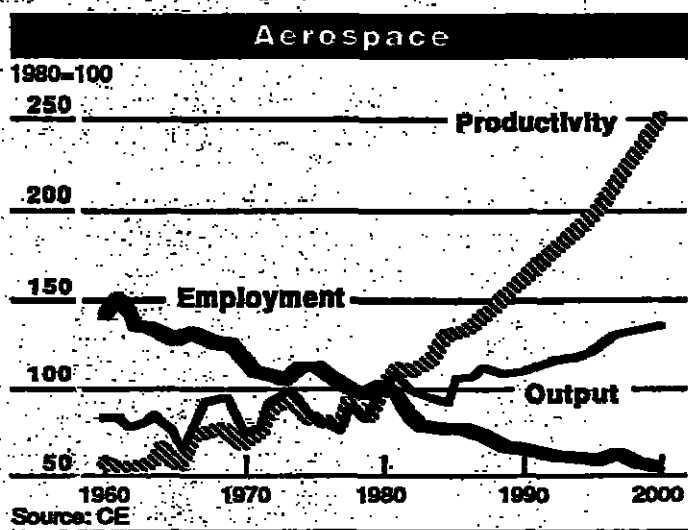
In aero-engines, apart from its work on the EJ-200 military engine for the FFA, Rolls-Royce is expected soon formally to launch development of its projected new 'big thrust' civil engine, the RB-211-524L (formerly called the RB-211-700), which is designed to provide power outputs up to 65,000 lb thrust initially, and beyond to 70,000 lb, if required.

Although the development cost will be high, this engine is essential if Rolls-Royce is to remain in the 'big league' of world aero-engine builders, in competition with its US rivals General Electric with improved versions of its CF6-80C2 and Pratt & Whitney with improved models of its FW-400.

Such high-thrust engines will be required for several forthcoming new airliners, including the short-to-medium range high-density twin-engined Airbus A-330, the medium-to-long range McDonnell Douglas MD-11 tri-jet, and improved models of the Boeing 767 medium-range twin-engined airliner.

In addition to these ventures, the industry will be pressing ahead with other new programmes already formally launched but still in their early development stages.

In commercial aviation, these projects include the new Airbus twin-engined short-to-medium range A-330, and the four-engined long-range A-340 airliners, for both of which British Aerospace will be building the wings. BAE will also be pressing ahead with its own new ventures, including the 54-seater Advanced Turbo-prop (ATP)



Source: CE

twin turbo-propeller airliner, and the improved BAe Jetstream 31, a 19-seater airliner, while also building up production on the Type 146 four-engined regional jet airliner and its 'Quiet Trader' variant, as well as the Type 125-800 executive jet, to meet the substantial orders won for all these aircraft during 1987.

In the helicopter field, Westland Helicopters of Yeovil, in conjunction with Agusta of Italy, will be accelerating the development and initial production of the EH-101 multi-role helicopter, of which a military variant for anti-submarine warfare is planned, with a commercial airliner variant also envisaged.

One area about which there is considerable concern is that of space activity, where although the UK industry has shown its technical competence, problems over the future level of Government financial support threaten to whittle down that capability through the rest of this century.

The Government has declined to increase the level of its contribution to the European Space Agency, arguing that the latest developments planned for the advanced Ariane 5 launcher, the development of the manned spacecraft Hermes, and participation in the Columbus contribution to the US projected manned space station, are too ambitious and expensive. Nevertheless, the member-countries of the ESA voted in the Hague in November to go ahead without UK support.

At the same time, the Government has been arguing strongly that commercial industry ought to finance more of the space programme instead of relying on increased state support.

Whether companies in the UK aerospace industry will increase their funding of space activities to enable them to share in the advanced ESA programmes, even on a private venture basis, remains uncertain, although it seems likely that where there are possibilities of commercial returns, for example in satellite development, some companies may be prepared to do so.

The industry can remember when the Government pulled out of the emerging European Airbus venture many years ago, and it was only because Hawker-Siddeley Aviation retained a private venture presence in it that the UK was able eventually to get back into what has now become the third largest civil aircraft manufacturing venture in the world after Boeing and McDonnell Douglas of the US.

But clearly the UK industry cannot afford the large sums that would be involved, even on an international collaborative basis, on major future space programmes into the next century.

One area of concern as a result of that approach is the future long-term development of Hotel, the revolutionary 'aerospace plane', which is intended to take off and land like a conventional aeroplane while being able to soar into low-earth orbit on space missions.

So far, the detailed feasibility studies into Hotel have been jointly funded by the industry through British Aerospace and Rolls-Royce, and by the UK Government through the Department of Trade.

The big question is what is going to happen to Hotel in the

done with the Space Shuttle.

Nevertheless, many in the industry believe that some other ventures will be well worth continuing, at least for the immediate future until their overall feasibility can be established to the point where serious consideration can be given to them being continued on an international collaborative basis.

This especially includes Hotel, which could be the passport into extensive collaboration in the future with the US on such ventures as aerospace planes in the broadest sense, even if the UK stays out of, or contributes in low volume to, the other ambitious ventures such as Ariane 5, Hermes, and the Columbus element of the US manned space station.

The survival of much of the advanced technological development that accrues from space research and which is directly and immediately applicable across the entire spectrum of aerospace activity depends on some resolution of this issue over the next few months.

Resolution of the space funding issue, therefore, is not only relevant to projects such as Hotel, and to the future of the UK's space effort, but also to the future technological thrust of much of the aerospace industry.

Michael Donne

Transport industry

A tunnel of opportunities

THE ATTENTION of much of the transport industry will be centred on the Channel Tunnel in the coming year, as operators and manufacturers attempt to gauge how they may be affected.

There will also be some interest in the probable flotation of National Freight Corporation, the biggest road transport operator, and TIP Europe, the market leader in trailer rental.

Among other issues, private express mail and parcels companies will be waiting for a decision from the Government on the future of the Post Office monopoly of non-premium letters.

There will also be lessons to be learnt from the public inquiry into the King's Cross tube disaster, which is expected to reconvene in February.

As far as the Channel Tunnel is concerned, attention is beginning to switch from the financing of the project to construction and the purchase of track, signalling and rolling stock.

This opens up major opportunities for British railway equipment manufacturers, though most contracts will probably be awarded to consortia including French and possibly Belgian partners.

The initial contracts, because of the long lead times involved, will be for the two distinct kinds of passenger rolling stock required. Tenders are expected to be

issued in the summer for the construction of the shuttle trains which will carry vehicles and their passengers between the tunnel portals on either side of the Channel.

Details of the specifications for these trains are still being drawn up by Transmanche-Link, the contractor building and equipping the tunnel for Eurotunnel, which is financing the project and will operate the shuttle trains.

TMI is believed to have allocated around £160m for railway equipment, including rolling stock, and loose consortia have already been formed with a view to winning the contract.

GEC Transportation Projects, for instance, is known to have had talks with Alsthom, the major French manufacturer, and British Rail Engineering Ltd (BREL) the equipment subsidiary of the British Railways Board.

Bidding is more advanced for the rather bigger contract to supply the through trains which will carry passengers between London, Paris and Brussels.

This contract, which is worth around £400m, is almost certain to go to an Anglo-French-Belgian consortium including GEC, Brel, Brush Electrical Machines and Metro-Cammell from the UK.

tract jointly. So far, it is the only contender.

The position of Brel in the consortium may be slightly complicated by the Government's plans to sell the company to the private sector during the year.

The most likely purchaser is a management buy-out team, however, which would mean that the company would still function as an independent member of the consortium.

Further Government proposals for privatisation of parts of BR may also be brought forward, but railway managers say they have been told this is unlikely, at least until Brel has been disposed of.

Among land transport operators, the employee shareholders of the National Freight Consortium will have to decide next month whether to go ahead this year with a stock market flotation, which is regarded as inevitable in the long term.

Sir Peter Thompson, chairman of NFC, has long favoured flotation, and a recent survey of staff attitudes indicated that there was likely to be sufficient support to go ahead this year.

NFC managers say sentiment has begun to swing against a flotation since the stock market crash in October, however, and this could influence the decision at the annual meeting.

TIP was unlucky enough to announce its plans shortly before the crash, and subse-

quently postponed the flotation in the hope that the markets would settle down.

Mr Jim Cleary, chairman of TIP, says the flotation will go ahead this year, partly in order to finance the company's re-equipment programme.

In the express delivery sector, TNT, the Australian-based multinational, is expected to keep up the pressure on the Government to relax or abolish the Post Office monopoly on letters costing less than \$1.

TNT has made clear that it is ready to set up an alternative national distribution system to compete directly with the Post Office, but only on its own terms.

These would mean the creation of a duopoly, in which TNT would be a licensed competitor to the Post Office and virtually guaranteed a share of the market.

None of the private companies seeks a free-for-all, since they would be unable to compete with the Post Office's high volume operation.

TNT's proposals are opposed by the other private companies, however, and there is as yet no firm indication that the Government has any plans to loosen the monopoly now that the Post Office has reached a settlement with its unions.

Kevin Brown

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Cash is king

from previous page

ratings, now find themselves better placed to pounce particularly on second-line stocks, where share-dealing has been illiquid since Black Monday.

All this said, mid-December brought forth a bid which defies most of these trends: Barker & Dobson, the retailer and sweet manufacturer, launched an extraordinary £2bn bid for the much larger Dec Corporation, the supermarkets business. The bid was partly in shares with a £1.25bn cash element underpinned by credit lines from a group of international banks.

The more general trend post-Black Monday was underlined by some of the bids launched in early December. Sears, the large retailing group which takes in Selfridges, the British Shoe Corporation and William Hill, the bookmaker, had for years been surrounded by bid speculation and was regarded as one of the less exciting companies in the sector. Post-crash, however, analysts began re-evaluating its virtues as a defensive stock (even though shoes is a mature market, everyone has to go on buying footwear).

Last month, after Australian entrepreneur Robert Holmes a Court sold his 8.5 per cent stake in Sears to the Egyptian Al-Fayed family, thus reducing the chances of a bid, Sears itself went on the offensive, launching a \$430m hostile offer for the Freemans mail order business.

Sears' action underlines another feature of the post-crash environment - the revival of the hostile takeover bid. This is often accompanied by dawn raids on a target's shares, designed to give the predator a quick bid platform. The aggressors are hoping that institutional investors who, in a rising market, could afford to turn down hostile offers, will be much more willing to accept cash now the market is so illiquid.

Still, institutional investors have fresh in their memories the prices at which target companies' shares were changing hands before October. And some predators are known to feel it will be worth their while waiting for several more months before pouncing, giving the market more time to adjust to more modest share price levels.

UK INDUSTRIAL PROSPECTS 4

Steel

On the threshold of privatisation

AFTER TWO years of being off centre stage, the UK steel industry is back in the spotlight. It is going to stay there this year.

Legislation due in the first half of 1988 for the privatisation of the British Steel Corporation is expected in 1988 or at the end of this year if it can be squeezed in - ensures that.

But that is just the most visible of a series of issues in the metals industry which have implications for large swathes of British manufacturing.

For one thing, the ability of private sector steelmakers as well as the corporation to maintain their profits growth of last year will be closely watched.

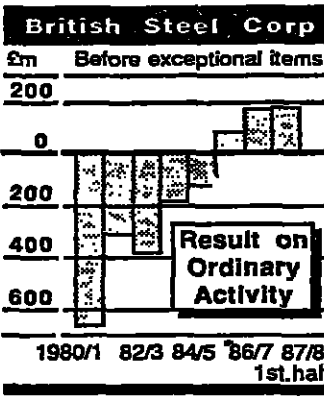
This will be particularly so for Allied Steel and Wire, the Cardiff-based rod and wire producer and one of the four main Phoenix companies set up during the 1980s in the Government-inspired programme to rationalise the British steel industry.

Allied was sold at the end of last year for £181m to a consortium of City institutions and the management has started out on the road to a Stock Exchange listing.

Most private sector companies are in profit, and appear to be in a healthier state than for several years. Most of them believe this year will be a fairly good to them with a steady improvement in sales.

But the British Independent Steel Producers Association's annual meeting at the end of 1987 was marked by some stinging attacks on energy ministers for electricity pricing and the damage new tariffs might inflict on profits.

The UK market for about 80 per cent of sales on average. At the moment, the UK market is pretty buoyant, but a sudden and unex-



pected downturn will not help anyone.

One trend which will almost certainly continue through this year is the reshuffling and partial restructuring that has been underway in what might be viewed as peripheral areas of the metals industry.

This has affected the steel stockholding business, scrap supply, foundries and some of the special steel making sectors.

A report produced last year on training in the British foundry industry reached some gruesome conclusions about the damage that long-term training deficiencies would have on the competitive position of this already shrunken sector.

Ten years ago, the UK foundry industry employed 130,000, including 6,000 trainees. By 1986 it was down to 60,000 but with only 750 trainees.

while another Rover foundry closed, as did the Parker foundry in Derby.

The scrap industry saw one of the most significant pieces of restructuring in years with the almost constant upheaval in Sheppards.

That industry is gradually being reshaped into one where a few large companies now have a dominant influence. More, but much smaller-scale reshuffling is likely this year.

Scrap companies will also have to contend as usual with the volatility of the scrap price. That volatility is unlikely to be so marked, though, as last year when the price rose 40 per cent between April and November.

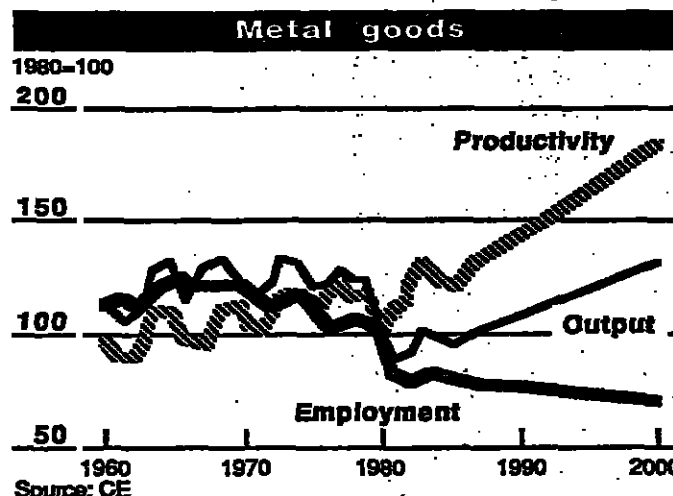
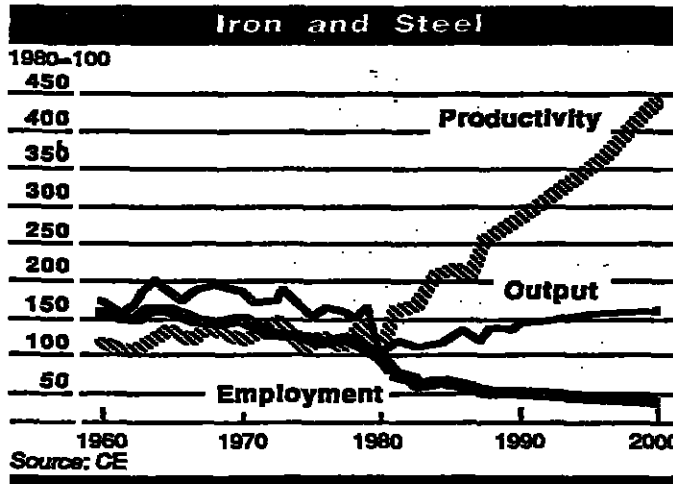
A cluster of small shifts in the ownership pattern of steel stockholding continued to change the face of that sector and more of that is expected.

The British Steel Corporation has just 15 per cent of UK stockholding and has given notice that it will be increasing this share. This will only be done after privatisation, however.

At the moment, the corporation has its hands tied by the Government though it has been buying up stockholding businesses in Europe.

There was also some small-scale realignment of the private steel sector last year. Though this was small beer compared with the huge rationalisation and reorganisation programmes during the early and mid 1980s, there could be more of it in 1988.

Last year, the changes include further expansion by Glynwed in bright bar, tube and special steels, and the purchase of the special steels subsidiary of Triplex by United Engineers. Rover steel, the biggest private sector steel company.



The overall picture for UK steelmaking does not look too good at the moment. This is a far cry from the nightmares of a few years ago and, to some extent, compares favourably with the gloomy condition of steel industries in some of Britain's biggest continental competitors.

The climate will obviously be partially governed by what remains of EC quota controls and the way the French, Italian and West German steel industries restructure. The health of UK manufacturing and the world economy, especially that of the US, are vital factors in making steel profits and at the moment things look reasonable on that score.

A lot about the way that British Steel will be privatised is already known. It will be sold as one unit through a full flotation. However, apart from exact timing, it is still to be decided whether the Government will sell off all its stake in one go or have two bites at it.

Nick Garnett

Telecommunications

A year when excuses run out for BT

THIS YEAR will be decisive for large swathes of Britain's telecommunications industry. By the end of the year, after a period of almost constant upheaval, the shape in which the industry will enter the next decade should be a lot clearer.

The question overhanging most other developments will be whether British Telecom can succeed in putting behind it a year it would prefer to forget.

The company whose privatisation spearheaded the revolution in British telecommunications has little more than the next 12 months to reverse the disastrous slump in public confidence which it experienced in 1987.

Last year, BT had excuses enough for its troubles - industrial action by its engineers early on and the winter storms which disrupted the South. But this will be the year in which the excuses run out. If it fails to get its act together, the regulatory regime due to be in place by the beginning of the 1990s is likely to be headed against it.

BT's top management team, under Mr Ian Wallace, the controversial choice as the new chairman, is fully aware that getting the quality of service right is the overwhelming priority. It will be under constant pressure to do just that from the Office of Telecommunications, the industry's regulatory body, which itself received some of the spray from the deluge of criticism which drowned BT in the summer.

BT has already halted its programme of job reduction in a bid to concentrate all available staff on quality improvement. Under pressure from OfTel, it has announced service targets some of which it is still well short of by March, 90 per cent of calls to be working at any time by April, calls to the operator, including directory enquiries, should be answered within 15 seconds, by March 1988, faults interrupting business lines should be cleared within five hours, faults on residential lines to be cleared within one day and faults which do not interrupt services to be dealt with within three days.

While BT is struggling to recover lost ground, Mercury Communications, its fledgling rival, looks as though it is about to take flight. Mr Gordon Owen, Mercury's managing director, predicts that 1988 will be "the year of revenue and profit growth".

By the end of March, Mercury will have committed about £500m in its drive to build an alternative telephone network, a project which marks Britain out from all other European countries. Mr Owen says that 1988-89 will see Mercury moving into solid profitability and passing the £100m turnover mark.

signing up small business and residential customers. Only if it attracts these in substantial numbers will it be able to argue credibly that it is a truly national network. It needs to be substantial - this claim to rebut the criticism that it is interested only in skimming the cream from BT's most profitable traffic.

So far Mercury has done little more than limited test marketing to attract residential customers. This year, it will go into much higher gear with an advertising campaign directed squarely at them. Around the middle of 1988 Mercury phone boxes should also make their appearance first in London and by the end of the year in other major cities.

Can BT dramatically improve its quality of service? Will Mercury emerge as a truly national service? Underlying both these questions is a third: will ordinary consumers come to see BT's privatisation and the industry's liberalisation, with all the attendant upheaval, as steps which yield solid benefits for them?

The Government and OfTel will be looking for answers to these questions, because this year they will start considering in earnest a series of decisions with fundamental implications for the future of the industry.

First in the pipeline is likely to be the future of the formula governing BT's prices which is due to expire next year. Professor Bryan Garberg, OfTel director general, is considering whether to seek a strengthening of the formula and whether to build into it quality of service considerations. He has said that the issue is likely to lead to a "reference" of BT to the Monopolies and Mergers Commission, the mechanism for sorting out disputes between himself and BT.

It is also probable that the Government will indicate this year the timing of the sale of its remaining 49.8 per cent stake in BT. It was committed in the original prospectus not to sell the stake before this April, but it may seek for solid evidence of quality improvements from BT before off-loading its shares.

By the end of the year, too, official thinking about two other regulatory decisions that are looming should become clearer. In 1988, the Government is due to decide whether to allow companies to act almost like sub-contractors by leasing lines from BT and then re-selling them for "voice traffic". The signs are so far that this will go ahead. In 1989, the Government is due to decide whether to break the duopoly held by BT and Mercury: there is much greater hesitation on this, partly because of the fear that Mercury could be the main casualty if the floodgates are opened.

At least, both network operators should be able to count on continuing solid growth in UK telecommunications traffic this year, even if the stock market collapse takes a little bite out of the spectacular surge in demand flowing from the City. This can-

not necessarily be said of Britain's telecommunications equipment industry.

Private exchange sales will continue to decline this year, according to MZA, a specialist marketing consultancy, as a result of the big modernisation programme carried out earlier in the decade. In 1988-89, they will account for \$22.2m, compared with \$27.5m in 1987-88.

British equipment companies can derive little comfort from those sectors of the market which MZA believes will be buoyant - telephones, cellular phones, answering machines and the smallest business exchanges - since much of the demand is met from overseas.

This is the backdrop against which the newly merged equipment interests of the General Electric Company and Plessey will have to operate. The joint venture will dominate sectors of the British equipment market, such as private exchanges, but its medium-term priority will be to build up its small presence in overseas markets.

If the unfolding strategy of GEC-Plessey will be closely watched, so too will the progress of another alliance cemented last year: that between Northern Telecom, the Canadian equipment giant, and STC. Northern has given only fairly general indications of how it plans to capitalise on its quarter stake in STC.

A joker which could disrupt everyone's calculations would be a bid by BT to introduce a third public exchange supplier into its core network. The GEC-Plessey joint venture, which brings together their respective System X exchange interests, removes one source of competition, while Thora Ericsson, the Swedish-UK joint venture, has experienced some teething troubles in bedding down its rival System Y exchange with BT.

There would be no shortage of offers if BT felt it needed another competitor. Both American Telephone and Telegraph, in alliance with Philips of the Netherlands, and Northern Telecom are pursuing sales of specialised exchanges to BT, neither has given up hope of ultimately getting into the core network. However, both will have their work cut out in persuading BT that the benefits would outweigh the disadvantages of having to cope with a third-core technology.

While the prospects for equipment suppliers appear uncertain, the opposite is true of one segment of the industry which continues to flourish: mobile telecommunications. As we enter 1988, there is no sign of an end to the spectacular growth of Cellnet and Vodafone, the two cellular network operators. This year will see the launch of cordless telephones which can be used in places like railways stations as alternatives to phone boxes.

David Thomas

Information technology

The trend to downsizing

THE UK's prospects in information technology are rising on the face of things, particularly promising its share of the world market in data processing, telecommunications and computing services remains stubbornly small at only just over 5 per cent. Last year, some stinging attacks on energy ministers for electricity pricing and the damage new tariffs might inflict on profits.

The UK market for about 80 per cent of sales on average. At the moment, the UK market is pretty buoyant, but a sudden and unex-

pected downturn will not help anyone.

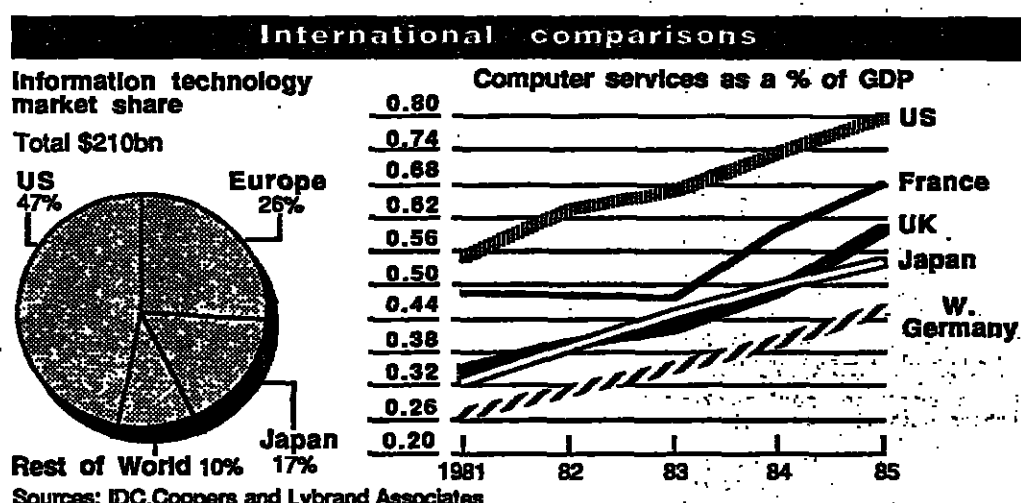
One trend which will almost certainly continue through this year is the reshuffling and partial restructuring that has been underway in what might be viewed as peripheral areas of the metals industry.

This has affected the steel stockholding business, scrap supply, foundries and some of the special steel making sectors.

A report produced last year on training in the British foundry industry reached some gruesome conclusions about the damage that long-term training deficiencies would have on the competitive position of this already shrunken sector.

Ten years ago, the UK foundry industry employed 130,000, including 6,000 trainees. By 1986 it was down to 60,000 but with only 750 trainees.

Last year, the changes include further expansion by Glynwed in bright bar, tube and special steels, and the purchase of the special steels subsidiary of Triplex by United Engineers. Rover steel, the biggest private sector steel company.



from industry standard workstations to departmental computers processing 80m instructions a second.

It seems, furthermore, that universal standards for the connection of computer systems of different manufacture and to enable the same software to be used on machines of several different makes are at last ready to be accepted by the computing world.

The proposed international standard for computer communications - OSI or Open Systems Interconnection - is within an ace of complete specification. Already a score or more of manufacturers have taken part in trials showing they are capable of exchanging documents between their respective machinery, a crucial test of adherence to OSI rules.

UK companies - and indeed the British Government - have supported the world market for now. Mr Bonfield of ICL, for example, is convinced that the company has a robust and realistic strategy.

He argues OSI standards cou-

pled with expertise in both data processing and telecommunications through the link with STC gives the company a powerful advantage.

ICL, IFL and Apricot are at one with most of the world's computer manufacturers in supporting Unix as the operating system for the small to medium-sized range of machines.

Britain's greatest potential in information technology, however, seems to lie in its software and services companies and their ability to become prime contractors for major projects - to become "systems integrators" taking appropriate hardware and software and putting it together to solve its customers' problems.

Dr Douglas Eyskens, director-general of the Computing Services Association, argues that UK systems integrators are especially good at solving customers' problems where the problems are not well defined.

There are signs that European customers are unwilling to come to terms with software "packages" - generalised software solutions written to be sold to

many different businesses - and are looking for a competitive edge from bespoke software.

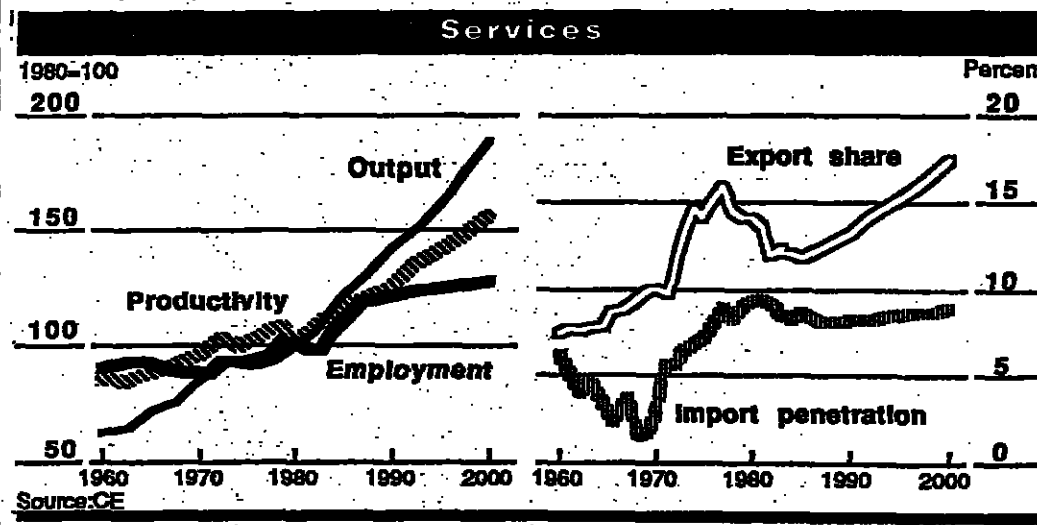
UK companies are expert in handling "systems kernels" software at the heart of common applications "around which bespoke software can be added to suit specific customers' needs".

Dr Eyskens thinks that the general outlook is good, although he expects some fall-off in financial services contracts after the crash in world stock markets; defence spending is also likely to be down.

Much depends on the extent to which IBM and other mainframe manufacturers move into the systems integration business, he says.

Overall, the largest question-mark hangs over the extent to which UK information technology companies can break out of their narrow domestic sales pattern and look to bigger markets in Europe, Japan, which is the position: "How fast can we move to an understanding of a European market without frontiers?" he asks.

Alan Case



Shipbuilding

The worst may now be over

TO A large extent, the prospects of Britain's merchant shipbuilders in the coming year rely on factors beyond their own direct control, so do those of the UK's remaining shipowners.

Of course, shipbuilders must make strategic decisions about which sector of the market they are in, and shipowners about routes and investment in additional or replacement ships.

But the reality is massive overcapacity in shipbuilding, and the low level of freight rates available in many sectors of the shipping market.

It is now about 13 years since the beginning of the recession in the maritime industries, and there are some indications that the worst may have passed.

For example, the world tanker fleet was reduced by 1.6m tons deadweight in the first half of 1987, and the dry bulk fleet by 1.8m tons dwt, thus reducing overcapacity.

might begin to cover costs.

There is also increasing optimism that the frequently-forecast boom in ship ordering expected from 1990 onwards will actually take place, though cynics suggest that the revival of shipbuilding is perennially three years away at any given time.

First International Capital Group, the shipping bankers headed by the financier Mr Paul Slater, says the order spree is now almost certain, and estimates that orders will be worth \$12.5bn a year.

On the other hand, October's stock market crash has raised the spectre of a fall-off in world trade, which could spark off a renewed cycle of overcapacity and falling rates.

If the recovery does come, it will be not a moment too soon for the UK's state-owned shipbuilders, which returned heavy losses last year.

Mr John Parker, chairman of Harland and Wolff, the state-owned Belfast shipyard, described 1987 as the worst year ever for shipbuilding. The yard needs a major order this year to avoid major job losses.

Both are actively discussing potential orders with owners who require the sophisticated services of the rest of the Royal Navy's requirements.

Mr Slater has also taken a leading role in the campaign by the European Shipbuilders Liaison Committee to persuade the EC Commission to raise shipbuilding subsidies to 30 per cent from the present level of 20-25 per cent.

European shipbuilders maintain that this is essential, even if prices do continue to rise, since at current world prices, led by the low-cost South Korean producers, they often cannot cover the cost of materials, let alone make a profit.

Britain's warship yards, removed from British shipbuilders and privatised by the Government in the past few years, are in a difficult position, with the exception of VSEL Consortium, the submarine builder based in Barrow-in-Furness, which has the contract to build the UK's Trident submarines.

Other yards - Yarrow, Vosper Thornycroft, Gammell Laird and Swan Hunter - face a struggle for a declining amount of Defence Ministry business, which is not eligible for subsidies.

Kleinwort Grieson forecast in a recent report that overcapacity in warship building was

so bad that in 10 years' time the UK might be reduced to only VSEL building submarines, and one other yard servicing the rest of the Royal Navy's requirements.

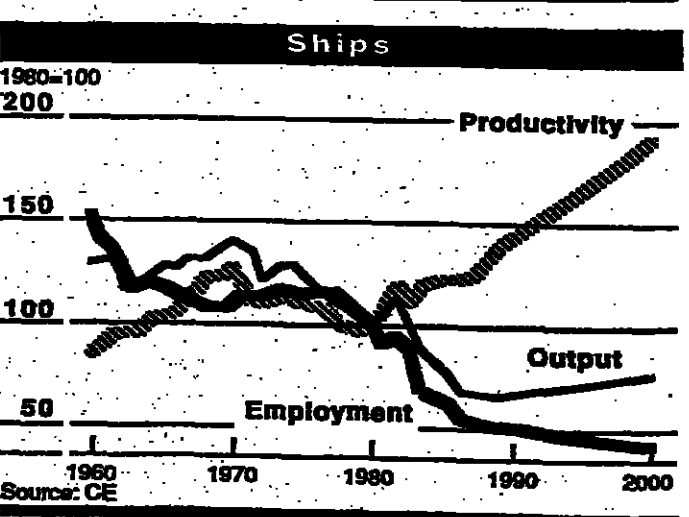
The writing may be on the wall in the shape of the decision by Trafalgar House, which bought Scott Lithgow, to mothball the yard until business improves. Even then, the yard is unlikely to return to warship building.

Among shipowners, confidence is growing that the upturn in the freight market for dry bulk carriers which has occurred in the last few months may last longer than previous short-lived improvements.

Fearnley's, the Norwegian broker, drew a comparison recently between the characteristics of the present upturn and a superficially similar improvement in 1978-81, and concluded that this time the bull market may be around for some time.

There is also no doubt that the tanker market is much healthier than it has been, although rates showed some volatility towards the end of the year.

One especially important factor here is that the oil majors have established a strong market presence through long-term contracts with the producer nations which will protect them against



vegetables in oil prices and ensure a steady core of business for the tanker fleet.

The one sector of the shipping market in which there has been constant expansion is pleasure cruising, and major orders for new ships are likely in the coming year.

Most companies believe that demand is virtually inexhaustible, since even in the US, the most developed market, only around 2m people take cruise holidays each year.

The biggest market is likely to be Japan, where local shipping companies have plans to offer cruising holidays for the first time. But this market is virtually closed to UK companies such as Cunard and P&O, however, because of the Japanese preference for travelling with local operators.

On the domestic scene, attention will be focused on the proposed agreement between P&O European Ferries and Sealink UK, which intend to apply to the Office of Fair Trading for permission to form a cartel right Channel Tunnel competition.

UK owners will also be keeping a close eye on the progress of investigations by the EC Commission into alleged breaches of Community fair trading law on the shipping routes to the US and Australia.

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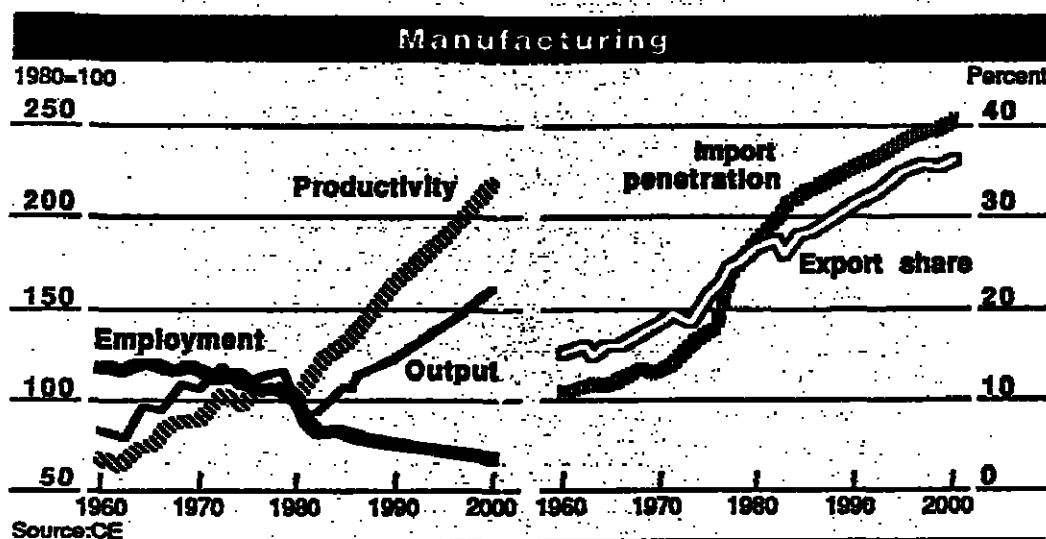
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Within the general manufacturing sector, industrial demand is forecast to grow fastest in office machinery and data processing, electrical engineering and instrument engineering.

Electronic components

Buoyant demand set to continue

THE EARLY part of 1988 is likely to mean a period of stock-taking for the UK electronic component industry, as companies come to terms with the fundamental restructuring brought about by Plessey's acquisition of the semiconductor business of Ferranti in November, a move which cemented together Britain's two biggest chip concerns.

This consolidation is taking place at a time when demand for components in the UK looks set to continue buoyant. Dataquest, the US-based market research organisation, believes UK semiconductor demand could grow by as much as a fifth this year, building on strong demand from data processing and industrial customers last year - the UK sector is so healthy that some suppliers were "having to re-schedule bookings taken in 1987 into the New Year," says Mr Jim Beveridge, a London-based analyst with Dataquest.

The main doubt on the immediate horizon is whether the stock market collapse will have knock-on effects for the component industry's customers.

"That is a concern for us all, but I find it very difficult to model through to the component sector," comments Mr David Kynaston, managing director of Mulard, the UK components business of Philips of the Netherlands.

Mr Kynaston believes there may be some slowdown in 1988, but principally because 1987 was a year of exceptional growth. "It's the depressed previous year," he told in a recent report. "The market is sufficiently confident of the future to have carried through important investments recently, such as the installation of a line in its Durham plant to make colour tubes for the computer industry, which were previously imported from the Far East."

Whatever the level of growth,

much of it will be met either by import or by the large number of foreign-based companies now producing components in Britain. In semiconductors, for instance, over half Britain's output is accounted for by foreign-owned companies.

However, most of the plants owned by the giant multinationals are in Britain as part of their global marketing strategies; many of their chips are destined for customers on the Continent or further afield, giving the foreign-owned plants some immunity to short-term fluctuations in British demand.

As part of these global plans, some are introducing state-of-the-art technologies into their British facilities. NEC of Japan and Motorola of the US, for instance, are both set on producing the next generation of advanced memory chips in their Scottish plants.

The indigenous British industry has quite different problems - principally its fragmentation and its poor record in attacking world markets.

Plessey's purchase of Ferranti's chip business is important not only in reducing the fragmentation. The resulting operation begins to have credibility in terms of size in the types of chips in which both Plessey and Ferranti have specialised.

They have concentrated on chips which are at least partly customised for particular users, known as Application Specific Integrated Circuits (ASICs), a segment of the business which has been growing in importance within total semiconductor sales. However, some analysts believe that the American and Japanese chip giants will progressively move into the ASIC market, turning them into commodity products and driving the price down.

So Plessey, which also demonstrated its commitment to the

business last year by investing £50m in a new chip plant in Plymouth, has a limited window of opportunity in which to get its act together. Plessey's and Ferranti's technologies appear to go well together. Plessey's high power CMOS capability will complement Ferranti's high power bipolar gate arrays - suggesting that Plessey will not need to engage in too much basic surgery to whip its new business into shape, though it has dropped hints that Ferranti's loss-making discrete business, based in Manchester, is a candidate for rationalisation.

But as, if not more, important than the question of the technological fit is whether Plessey will have the courage and resources to beef up the marketing effort needed to drive a successful chip company - the area where British companies have generally fallen down in the past.

The fact that Plessey is clearly not content just with its acquisition of the Ferranti business is a sign that Plessey grasps the size of the mountain it has to climb. It is determined to build up its presence in the US and has said it will look at joint ventures and acquisitions there as a means of doing so. It has also at various times shown an interest in Inmos, the chip subsidiary of Thorn EMI, and the semiconductor operations of the General Electric Company.

This year might see Thorn finally realising its ambition of selling a controlling stake in Inmos, the company which has won plaudits for its innovative chip designs, but which has not yet built up enough sales to generate consistent profits. With Plessey apparently no longer interested, it looks increasingly possible that control of Inmos might pass into foreign hands.

David Thomas

Domestic appliances British market is wide open

TOSHIBA OF Japan started selling free-standing electric cookers in the UK for the first time last week. The parent, the Fanuc group, is looking around for "several" new manufacturing sites. Safel of Spain is re-entering the British market this year, 15 years after being forced out by cut-throat pricing policies, with a range of washing machines and refrigerators. Simpson of Australia is also weighing up the possibilities. Candy of Italy has budgeted to spend a record \$8m on promotion.

Good news or bad? Both. The interest of these and other potential suppliers confirms quite clearly that the British domestic appliance market is on the way up. Sales and margins are improving, and everyone wants a slice of the action. Hotpoint, the GEC subsidiary, showed its feelings about the prospects when it took the plunge last year and bought Creda, TI Group's white goods business for £126m.

Although much of the improvement can be put down to the popular success of "new" products like the microwave oven and dishwashers, sales of all kitchen appliances have picked up. Some estimates suggest a 6 to 8 per cent advance across the board, perhaps a little ahead of the general boom in consumer spending.

Optimism, tempered by still-distant fears of recession in the wake of Black Monday, remains high. Apart from expectations of continuing high sales of newly-fashionable products, the market for replacements of old washing machines and refrigerators, helped along by innovative features such as frost-free freezers and electronic programming, is likely to improve.

The pity of it is that there are so few indigenous British appliance makers to take advantage of this. Hotpoint stands streets ahead of companies like Lec and Servis. US-owned Hoover holds a strong second place from its base in South Wales. Although UK output is increasing, it has a long way to go before it can meet domestic demand. Britain produced only about 10 per cent of the European Community's total output of \$3m appliances in 1985, while UK demand accounted for 18 per cent of EC sales.

Relative market stability, which has improved since the early 1980s, has improved margins. Prosperity has led to improved sales, and inevitably, Britain is increasingly seen as a market with renewed potential.

However, that vision could fade quickly if too many suppliers pile in. If disappointment is remedied by past tactics - such as attempts to "buy" market share with giveaway prices - everyone will suffer.

That aside, there are ample signs that the European market as a whole has followed a similar track to that in the UK. CECED, the appliance makers' federation, which covers the Community plus Sweden, Austria and Switzer-

land, recently published an unusually cheery report which declared: "Future prospects can be generally assessed as positive." It painted a picture of a growing market, fed by a leaner and more muscular industry.

After declining by an average 2 per cent a year between 1980 and 1985, European white goods production increased 9 per cent in 1986. However heartening a snapshot of one year's performance is no basis for over-optimism. But the background is encouraging. CECED points out that the long haul towards rationalisation has accelerated. The number of employees in appliance manufacture, having fallen by 12 per cent during the 1970s, dropped by a further 23 per cent between 1980 and 1986.

There were almost 700 companies in the business in 1970. Now there are 450. But this figure does not fully reflect the full extent of the restructuring. CECED's figures include all subsidiaries owned by multinationals such as Philips and Electrolux. Best estimates suggest there are still between 300 and 350 independents and groups operating in Europe. Compared with the US, where four majors account for some 85 per cent of all sales, rationalisation still has some way to go. Even allowing a generous margin to allow for national preferences and varying technical requirements, the US example suggests 50 separate companies could probably fill European requirements comfortably.

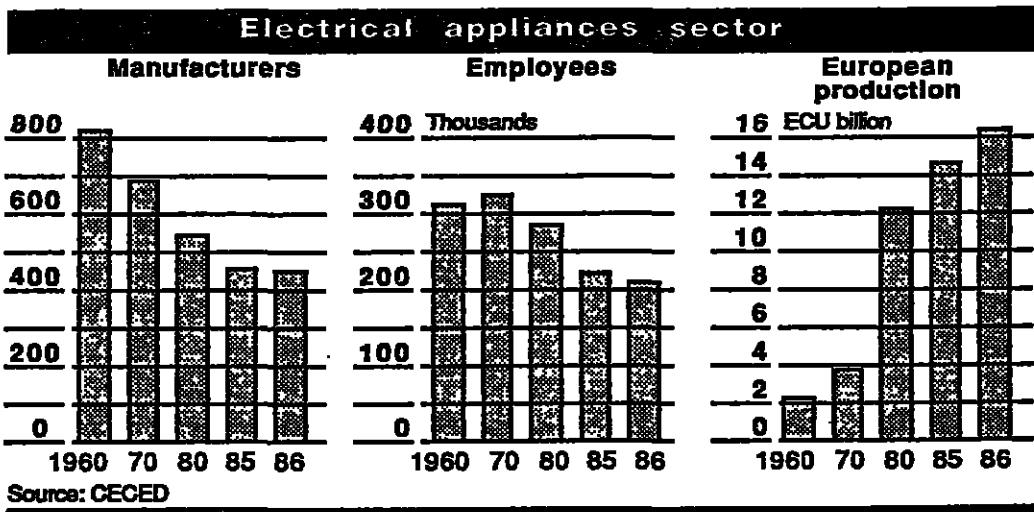
Doubtless, rationalisation will continue. The past year has seen Merloni Electrodomestici of Italy take over Indesit. Electrolux has gobbled up Thorn EMI's appliances arm and Hotpoint has taken over Creda.

There will be more classic takeovers like these, but restructuring may also involve more co-operative efforts, perhaps similar to the long-standing joint manufacturing and marketing venture between Bosch and Siemens of West Germany.

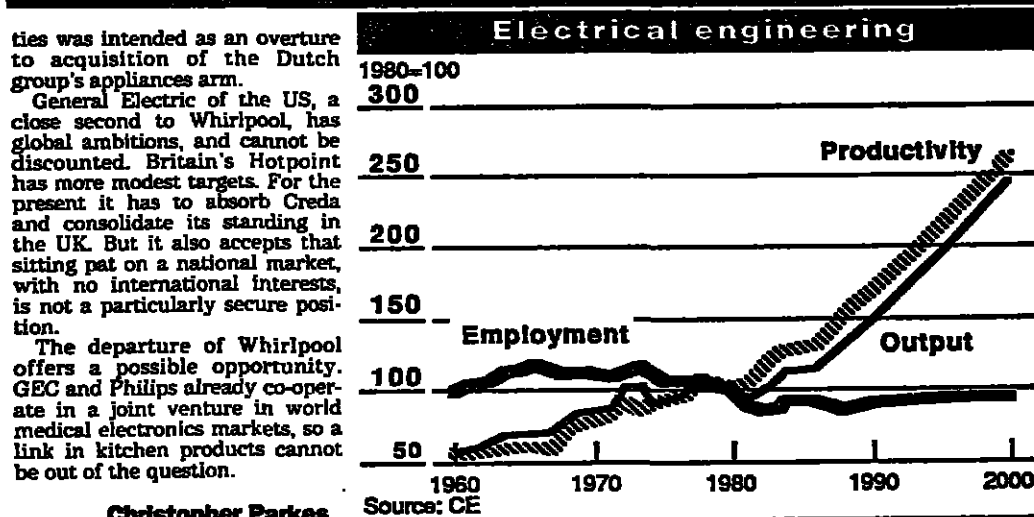
The prospect of a radical link between Whirlpool Corporation, the largest appliance maker in the US, and Philips of the Netherlands, Europe's No 2, receded when negotiations were called off recently, after more than a year. Although Philips declared that it was not looking for other partners, it is sure to find itself being assiduously courted in the future, since Whirlpool's initial aim of a joint venture to produce its machines in Philips's fac-



Products being inspected at Thorn EMI's new cooker factory at Spennymoor, County Durham, where the company has invested £10m in the latest production facilities.



Source: CECED



Christopher Parkes

Electrical engineering

ties was intended as an overture to acquisition of the Dutch group's appliances arm.

General Electric of the US, a close second to Whirlpool, has global ambitions, and cannot be discounted. Britain's Hotpoint has more modest targets. For the present it has to absorb Creda and consolidate its standing in the UK. But it also accepts that sitting pat on a national market, with no international interests, is not a particularly secure position.

The departure of Whirlpool offers a possible opportunity. GEC and Philips already co-operate in a joint venture in world medical electronics markets, so a link in kitchen products cannot be out of the question.

Mechanical engineering

Quieter year may be ahead

WILL MECHANICAL engineering continue to demonstrate in 1988 the schizophrenia that was such a feature of its character last year?

Yes it will, but it will not be so pronounced. That probably sums up the view of most managers working in the fiercely competitive sectors which make up what is still one of the UK's principal areas of employment and foreign exchange earnings.

Two very clear but conflicting trends characterised mechanical engineering in 1987.

On the one hand, many well-established companies enjoyed much improved profits. Some operations like those of tractor-maker Massey-Ferguson at Coventry and Cummins' diesel engine plant at Shots in Scotland found themselves either working seven days a week or producing close to capacity.

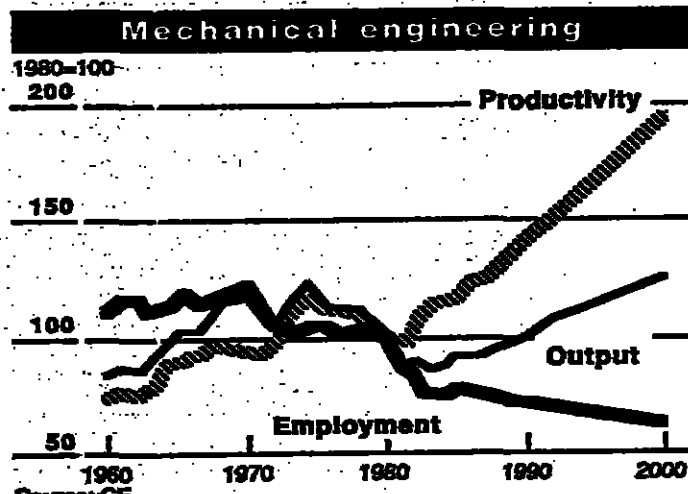
At the same time, there was an aggression in the industry not seen for many years. For companies like APV, the food processing equipment maker, BTR and Hawker Siddeley, this took the form of a big acquisition drive, with US companies the main target.

As part of this upbeat trend, a number of new foreign-owned players either emerged or expanded as production companies in the UK. These included Komatsu, the Japanese construction machinery maker and Yamazaki in machine tools.

But along with all this went more restructuring, more plant rationalisation, more redundancies and more sheer pain than has probably been seen since the grim recession days at the turn of the decade.

Last year was marked by an astonishing series of ownership changes. In some industries, like earthmoving machinery and machine tools, a host of companies was involved. In other sectors, it was more a case of the big one-off shift in ownership which has fundamentally altered that sector's structure.

In pumps, it was the purchase of Mather and Platt by Weir. In power generation it was the acquisition of Babcock & Wilcox by P&L. In food-mashing machinery it was the merger of APV with Baker Perkins. Others that fall in the same frame include the sale of RHP's bearings business, the



Source: CE

UK's biggest, in a management buy-in, the acquisition by Electrolux of Sweden of the Ran-somes, Sims and Jeffries farm machinery business.

Apart from this fundamental restructuring, the continuing need to make unpleasant adjustments to changed circumstances was much more in evidence last year than in 1986.

This took many forms. For some it was plant closures which included that of Ramsons and Rapier, the drilling maker at Norwich, and the Caterpillar dozer factory in Glasgow. Jones, the 600 Group mobile crane maker virtually stopped production.

For others, it was labour shedding. Two power generation equipment companies, Babcock and Wilcox and Parsons announced substantial redundancy programmes. So did Case, the US tractor maker at two of its sites in the North.

Many companies were, and still are locked in internal reorganisation programmes. Some of them, like that at Aveling Barford, the construction machinery maker, have been painful. Others, like that at which Lansing, the lift truck maker, has embarked have been less so.

It would seem that many of the trends evident last year will also be seen this year but not to the same pronounced extent.

More acquisitions in the US,

which last year often revolved around the purchase of companies making electronic controls, are certainly on the cards. But the stock market slide will mean there will be fewer of them. The withdrawal of TI from its planned purchase of Bundy, the US tube maker is likely to be a sign of the times.

Further restructuring is bound to happen in the UK, particularly in sectors burdened with excess capacity, outmoded production plant or very weak companies.

There has been a persistent rumour that GEC would be prepared to get out of all or most of its diesel engine businesses if it could secure a reasonable price. The company has tended to deny this, not entirely convincingly. Last year it sold Dorman to Broad Crown, the generating set maker.

It is difficult to see, though, how there could be as much restructuring as last year. In machine tools, for example, at least six companies changed hands in 1987, including the former TI business, one of the largest indigenous owned machine tool operations. There are not many more companies up for grabs at the moment.

Another trend which could continue is the growth of the so-called mini-conglomerates like Williams Holdings, Tomkins, Siebe and Suter. These compa-

nies have been darlings of the analysts and in financial terms have performed very well. Their tendency to diversify, shown most strikingly in Williams' purchase of paints companies, Crown and Berger, will remain.

Analysis appears to be expecting a strong earnings growth this year for companies in mechanical engineering. Hoare Govett, for example, is predicting an overall jump of 20 per cent, and 13 per cent for 1989 above last year.

The relative health of manufacturing sectors within mechanical engineering however will continue to vary very substantially.

In power generation equipment, it is going to be another difficult year. The programme of new power stations is good news for equipment suppliers but the tendering and ordering schedule means that work will not start in earnest on shopfloors until 1990.

GEC Turbine Generators claims to be about the busiest company in this sector right now but its Rugby operation is only operating at around 65 per cent of capacity.

Debate about the kind of structure the electricity generating industry should have on privatisation has also sparked some nervous flinching about the effect this might have on the nuclear power station programme.

The machine tool sector suffered a drop in sales last year and is concerned about 1988 even though there has been a recent pick-up in orders. Many diesel engine builders are very busy but margins are a nightmare. Plant makers are worried about the state of ordering from processing industries.

In some sectors, though, demand is expected to stay very healthy. For example, the UK market for construction machinery has been pretty buoyant and requirements for small and large equipment still look pretty good.

As with so much of British manufacturing industry, currency movements and the state of overall demand in the US and UK will play a large part in defining the kind of year that mechanical engineering will have in 1988.

Nick Garnett



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UK INDUSTRIAL PROSPECTS 6

Brighter outlook for the chemicals industry

Period of new-found confidence

FEW AREAS of British manufacturing appear as strong, or as confident, as the chemicals sector. Having encountered a rough period at the beginning of the 1980s, the industry has restructured itself, shedding a lot of its workforce in the process, and appears well placed to take advantage of what look like being favourable trends for the worldwide chemicals business over the next few years.

The chemicals sector is Britain's fourth biggest manufacturing business, after food, drink and tobacco, and mechanical and electrical engineering. Roughly half the industry's output last year of \$20bn was exported, making the business one of the most globally minded of the various UK commercial sectors.

While in the 1980s the UK trade balance in manufactured goods has slipped deeper and deeper into the red, in the chemical industry the reverse position is true. Last year it had a net export surplus of \$3bn, as opposed to a net deficit of some \$10bn for the manufacturing sector overall.

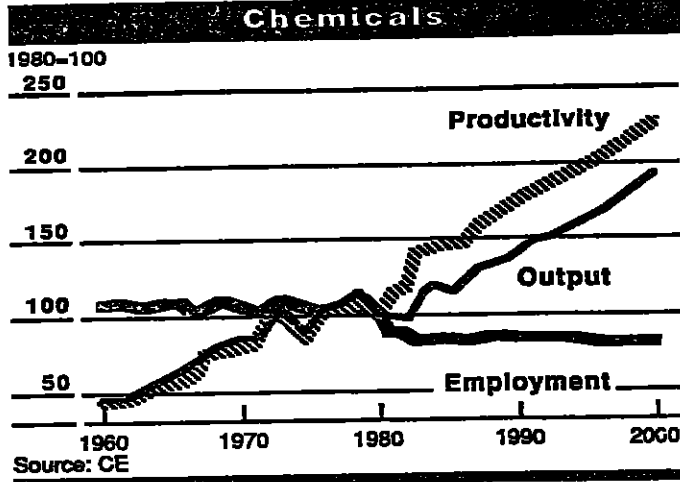
During the 1980s the chemical industry in Britain has posted a general optimism, though she says "there are grounds for slight concern in the immediate future regarding the effects of what appears likely to be a slow-down in the US economy spilling over to Europe."

In part, the good prospects for the UK chemicals sector derive from the overall reduction in employment in the industry since it encountered the depths of economic recession around 1980. From 415,000 employees in 1979, the chemicals business in 1986 accounted for 337,000 people, while production is roughly 10 per cent higher.

Onlookers say the fall in numbers signifies a leaner, more efficient industry, which as a result of more flexible working practices can react more quickly to changes in the market-place. "The UK chemical industry has never been healthier," declares Mr John Cox, an ex-Shell executive who is director-general of the Chemical Industries Association, a trade body for British chemicals companies.

Another change has been the shift in the products of the UK industry towards the specialty or high-value end of the chemicals business and away from commodity items such as polyethylene and polystyrene. The specialty side of the business includes a bewildering range of materials from engine lubricants to soap powder and catalysts from agrochemicals to food additives and engineering plastics.

Another high-value area among chemical products is pharmaceuticals which, accounting for roughly a quarter of the output of the UK chemicals sector, is treated as an industry in its own right. Switching resources from bulk chemicals to the specialty area of the industry makes sense for an advanced, industrialised nation like Britain, in theory at least, it should be



Shift in products to high-value end of the sector and away from commodity items

able to exploit advances in the latest scientific research to turn out goods aimed at particular sectors of the market-place and which can be sold at a high price.

In this way, the industry should be able to insulate itself at least to some extent, from downturns in the market, which will affect the staple, bulk areas of the business to a higher degree. In future, according to Mr John Goldhill, an analyst specialising in chemicals and plastics at the London office of Arthur D. Little, the US consultancy, commodity items such as polyethylene will be forced to shift towards the specialty products to a still greater extent. He foresees a greater customisation of products as the focus in the industry swings more towards addressing specific needs in the market-place rather than turning out large volumes of basic commodities.

Many successful chemicals companies will behave more like service concerns in selling highly specific materials (backed up by a large degree of customer support) rather than the traditional manufacturers, thinks Mr Goldhill. Areas where such trends can already be seen include, for example, the provision of resins and specialty fibres for the manufacture of high-strength composite materials used in industries such as aerospace and cars.

In this context, Mr Cox of the Chemical Industries Association sounds a note of concern when he says the focus in the industry in Britain the user base in high-value areas like composites does not appear particularly strong. This may, in future, force UK chemicals concerns to look increasingly to overseas markets for their sales.

The shift in the UK towards the high-value side of chemicals can be generally seen in the healthy position of the country in the area of what are called specialised organics. These chemicals, often with a highly complex formula and with near-

unpronounceable names, are the building blocks of many types of drug and dye products. They also form the basis of items such as oilfield chemicals (to speed the flow of oil from wells for example) and new types of polymer. The UK's positive balance of trade in specialised organics has increased from \$73m in 1983 to \$216m in 1986 with output in this sector last year a healthy \$1.7bn, a 30 per cent increase on the figure for 1980.

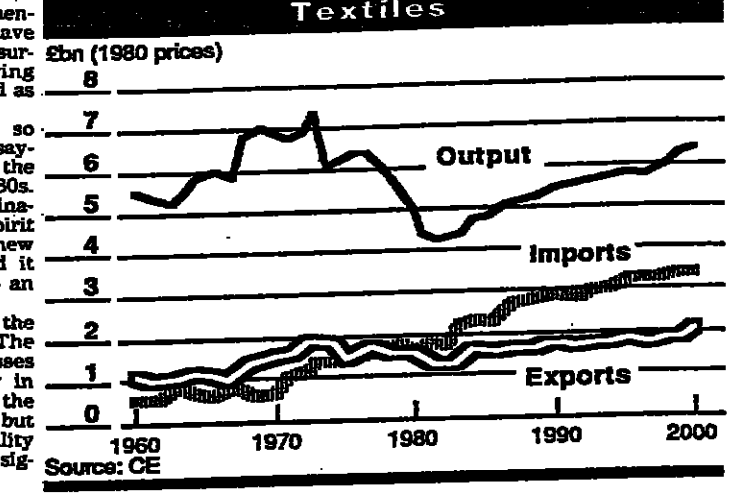
ICI, by far and away the biggest UK chemicals concern, with UK-based production accounting for roughly a quarter of the entire industry, has led the swing towards specialty chemicals, showing a good performance in areas such as specialised inorganics and drugs. The trend has been followed by Shell UK which with BP and Esso forms the "second tier" of UK chemical concerns and has sales of about \$600m a year. Other, smaller companies which have impressed analysts with their performance in shifting more into the non-bulk kinds of areas include Allied Colloids, British Vita and Laporte.

Parts of the British chemical industry which, in contrast to specialised organics, are in a far less healthy state are by and large the commodity-type areas such as fertilisers and the raw petrochemicals such as commodity organics and plastics produced as the staple products of plants like ethylene crackers. In fertilisers, in particular, the UK industry has had to undergo radical restructuring as both the world agricultural industry and commodity have fallen dramatically over the past few years. The poor state of the UK fertiliser sector, where last year there was a trade deficit of \$130m, has been due largely to their traditional dependence on fertiliser suppliers from the Far East and the Arabian Gulf. These have been selling their products, particularly cheaply.

Peter Marsh

Textile industry

Days of decline are over



Textiles industry will be left fully exposed to rising imports.

IN THE past year or so, whenever Government ministers have cast about for examples of resurgence within manufacturing industry, textiles has emerged as a popular choice.

The textile industry, or so these ministers are fond of saying, has hauled itself out of the doldrums of the early 1980s. Moreover, they say, the combination of a new managerial spirit and sustained investment in new technology has transformed it from a relic of the past into an industry of the future.

None would deny that the days of decline are over. The mill closures and job losses which blighted the industry in the early 1980s are part of the past. Imports are still rising, but so are exports. Both profitability and productivity have risen significantly.

But an industry in resurgence is, by definition, an expanding industry. As yet, there is no evidence that Britain's textile manufacturers are sufficiently confident to invest in new capacity. "The memory of the mistakes of the late 1970s - when so many manufacturers engaged in ambitious expansion programmes, thereby exacerbating their problems during the slump - still haunts the industry."

The more optimistic observers of the textile sector had hoped that 1988 would be the year in which the industry would summon the confidence to expand. "But as 1987 wound on those hopes were dashed by the dual threat of a downturn in consumer spending and a continued surge of imports from the Far East."

The textile industry of today is a pale reflection of its post-war peak in the early 1950s. Nevertheless, it employs almost 500,000 people, nearly a tenth of the manufacturing workforce and is one of the chief sources of employment for women and ethnic groups.

The tradition of regional specialisation has survived the slump. Cotton production is still concentrated in Lancashire; wool in Yorkshire and the Scottish Borders and knitting in the East Midlands. Moreover the corporate structure of the industry is as diverse as ever. Its twin colossi, Coats Vella and Courtauld, are the two largest textile groups in Europe. But the back streets of Britain's inner cities are littered with tiny clothing sweatshops.

In many ways 1987 was a year of consolidation for the industry. Coats Vella was still embroiled in the integration of the Coats Patons and Vantona. Vella businesses which it merged in the spring of the previous year. Courtauld augmented its interests by investing in the lace industry, but its main acquisitions were directed towards other sectors. Even Colclough and John Crowther, the most acquisitive of the textile groups, called a halt to their expansion programmes.

The end of the year output hadmustered a very modest increase, while employment had suffered a slight decline, reflecting improvements in productivity. Yet the influx of imports into Britain, fuelled by fears that the rise will

be even more rapid in 1988. In the first three quarters of last year, the flow of imported textiles and clothing into Britain increased by 12 per cent to \$4.7bn. The reasons are twofold. First, the decline of the US dollar, and of the Far Eastern currencies linked to it, made textiles and clothing from the established low cost producers in Hong Kong and South Korea more competitive. Second, imports from the Far East to the US were diverted to Europe because of concern about the protectionist climate within the US.

The import problem worsened as the year progressed and the value of the dollar fell further. By the third quarter of 1987 the rate of import increase had accelerated, rising by 19 per cent to \$1.7bn.

So far, the British textile industry has emerged unscathed from this surge in imports. Output remained relatively robust until the end of the year, and other than some signs of overstocking in specific areas of fabric manufacturing, stock levels were stable for retailers and manufacturers alike.

But the dollar has fallen further since the end of September. Moreover, the risk that the US Administration may enact the Textile Trade and Apparel Bill, which is about to go before the Senate, though much reduced has not entirely disappeared. If enacted, this legislation would not only restrict the entry of British goods to the US, but would divert Far Eastern textiles bound for the US to Europe.

Whether the industry will be able to shrug off a further rise in imports is debatable.

The outlook is further clouded by the threat of a slump in consumer spending. In 1987 the effect of the increase in imports was cushioned by the combination of the emerging, if more modest, growth in exports and the buoyancy of consumer demand.

There are already signs of a slowdown in consumer spending. The pessimism in the industry has resulted in a long-term pattern of growing slightly more slowly than consumer spending as a whole. If this scenario unfolds, the domestic textile industry will be left fully exposed to rising imports.

It is more difficult to predict whether the recent rise in exports will be sustained. In the past few years, exports of British textiles to the European Commission countries have increased, helped by the more competitive sterling exchange rate against the key European currencies. Similarly, the increase in imports from within the EC has been halted.

It remains to be seen whether British textile and clothing manufacturers have simply benefited from a short-term currency increase in imports from within the EC has been halted.

One encouraging sign is that the growth of exports to Europe has continued in the past few months, even after the pound strengthened against many European currencies. Clearly, the industry has succeeded in establishing a long-term foothold in the European marketplace.

Even if the industry's worst fears materialise - the flow of imports accelerates and consumer demand dries up - it is not yet clear that it has a better chance than ever before to withstand a downturn.

In the recession of the early 1980s the textile industry not only suffered from the general economic malaise, but from the legacy of its own structural weaknesses: mismanagement, under-investment and inefficient stock control.

These problems were addressed in the restructuring of the mid-1980s. The industry may still lag behind its chief European competitors, in Italy and West Germany, in the level of modernisation but it has made great advances. Moreover, the severity of the slump has left the industry with a sleek mentality which has manifested itself in the reluctance to invest in new capacity over recent years.

The attitude may have made the industry less dynamic but it has also ensured that it will be far less exposed should economic conditions become less climatic.

Alice Rawthorn

The UK boasts world-class companies in the pharmaceutical sector

Healthy exports prospects

BRITAIN'S pharmaceutical industry is a curious paradox. In terms of sales growth, profits and exports it is one of the country's most successful. It is a paradox because for much of the time the industry behaves as if it were fighting for survival.

One of the reasons for the near-schizophrenic tendency of the industry is that it depends for its new products and sales revenues almost entirely on scientific discoveries that have, in the past at any rate, been largely hit-and-miss affairs. This explains the general nervousness - rather similar to that of a top goal scorer in football about whether he can keep finding the net - as to the degree to which the industry can continue with a high rate of innovation.

Then there is the large, and undoubtedly burdensome, degree of regulation with which the pharmaceuticals business has to contend. The industry has to keep within a mass of government rules setting out guidelines on areas such as patents, animal experiments and the lengthy and expensive clinical trials which are required to ensure products are safe.

Added to this is the Government's role as a customer. Drugs are like military equipment in that, worldwide, most sales are via state agencies. In Britain, the Department of Health and Social Security, the main customer for UK pharmaceutical companies, controls not only prices but other aspects of their activities such as the cash they spend on promotion and on research and development.

These controls are exerted through a Byzantine set of rules known as the Pharmaceutical Price Regulation Scheme (PPRS). The latest scheme, agreed with the UK pharmaceuticals industry last year and set to last into the 1990s, contains terms which most observers agree are generally favourable to the drugs business - but company representatives still continue to find fault with the guidelines. Despite the unusual level of constraints within which the drugs sector operates, the 1980s so far have been a highly successful period for the business, with most onlookers predicting that this will continue for the foreseeable future.

The drugs business in Britain can be looked upon as a specialised slice of the chemicals industry, accounting for annual output of about \$5bn or roughly a quarter of the turnover of the chemicals sector. Roughly \$2bn of the sales are prescription items paid for by the National Health Service.

The pharmaceuticals sector sells nearly a third of its production overseas, making it an extremely high export earner. It is also one of Britain's biggest employers of research staff, spending about \$600m in this area each year.

Compared with other industries, the UK pharmaceuticals business has had a good growth record in recent years, expanding sales by 26 per cent between

1980 and 1985, a figure that puts in the shade the comparable growth rates for industries such as engineering and textiles. In fact, the pharmaceuticals trade surplus for UK pharmaceuticals is likely to be about \$830m this year compared with roughly a quarter of this figure in 1975.

Unlike other areas of industry such as engineering and electronics, Britain boasts a number of world-class companies in the drugs sector, including the UK-owned Glaxo, ICI, Wellcome, Beecham, Smith and Nephew, Fisons and Boots. Other, foreign-owned, concerns with a significant presence in the UK include May and Baker (a subsidiary of Rhone-Poulenc of France) and the US multinational Squibb, and Smith Kline and French Laboratories.

Mr Ian White, a respected drugs industry analyst at Greenwell Montagu, the London stockbroker, believes that the immediate prospects for the UK drugs business are good. He sees sales through their research and development pipelines, prospects for many of which have excited industry observers. In the case of Glaxo, the UK industry leader,

which has shot within the space of a decade from being an also-ran to the world's sixth biggest drugs concern, analysts predict that the potential of two drugs now under development and which seem likely to appear on the market place in 1989 and 1991 respectively.

The formulations for treating rheumatoid arthritis and cancer patients (another variant on the product may help combat depression and schizophrenia) and for combating migraine - could account for sales of hundreds of millions of dollars a year in the 1990s, say onlookers. As such, the products could be a useful follow-up for Glaxo to Zantac, an anti-ulcer medication which appeared on the market in the early 1980s and is now the world's best-selling drug, with annual sales over \$1bn.

Analysts are also bullish about prospects for Tilade, an anti-asthma product marketed by Fisons, and Enzase, a drug invented by Beecham for treating victims of sudden heart attacks. Steady growth is also forecast for ICI, which has specialised in medications linked to the fast-growing market in anti-cancer drugs, and Wellcome, which has shot to prominence to a large degree due to its work in anti-viral compounds such as the company's Aids drug, Zovirax, and its Zovirax product for treating herpes.

Specific areas for the future which cause the industry concern include the large uncertainties about the nature and degree of government regulation over the next few years and the effect of public spending cuts on university research in fields such as biochemistry and medicine. These constraints on the university system, some industry leaders suggest, are already making it more difficult for companies to find the brains and well-trained graduates which they need to keep their research teams up to scratch and to lay the groundwork for future winning products.

Another challenge for the industry is to improve its information service to the public about its aspirations and about the general nature of its business. What is, by most people's standards, a highly successful UK industry is often put in a poor light by references to drugs firms' use of animal studies or tales which are exaggerated in the marketing of medications to doctors.

The industry has found it difficult to respond to simplistic criticism since the areas involved are, in itself, complex. It is also reminded by a study by Britain's National Economic Development Council last year. "It will be increasingly important for it to marshal and present its evidence and arguments more effectively than has done in the past. Failure to do so will risk real damage to the industry and, in consequence, to the needs of patients."

Peter Marsh

Problems for Britain's shoe-makers

Imports battle rages

IN THE closing months of 1987, the spectre of the cuts and closures ravaging Italian shoe manufacturers cast a shadow over their counterparts in Britain.

For decades, Italy has housed the most vibrant footwear industry in the world. In the 1950s and 1960s, Italian producers moved onto the world market, aided by low labour costs and an indigenous flair for design.

Yet last year the lira rose so strongly against the currencies of many of the major export markets that Italian footwear companies were powerless to prevent the collapse of their overseas sales. Exports to the US fell by a quarter and to the UK by more than a fifth.

The problem posed by the lira's strength was compounded by the weakness of the US dollar and the Far Eastern currencies linked to it. Italian shoes were not only priced out of overseas markets, but forced to compete with an influx of imports into Italy.

As a result, the industry is in chaos. Employees have been laid off. Factories have closed. Short term working has become commonplace.

US satisfaction the British shoe industry permitted itself at the sight of the Italian crisis - the emergence of the Italians in the 1960s and 1970s had, after all, wrought havoc in its ranks - was short-lived. For the prospects of Britain's shoe makers are far from rosy.

The industry started 1987 in an ebullient mood. The influx of imports - which had begun in the 1950s and gathered momentum in the 1960s and 1970s - reached a peak in 1984 and had then begun to decline.

But in 1987 the combination of the dwindling dollar and the

threat of protectionism in the US - which prompted exporters to direct their energies towards Europe - fuelled an unprecedented surge of imported footwear into Britain.

In the first half of the year, import penetration soared to represent 67.5 per cent of the British market by volume and 64 per cent by value. Both figures are far higher than the previous peaks in 1984. The level of imports from the emerging footwear markets of China, Indonesia and Thailand more than doubled in the first three-quarters of the year.

The impact of this increase was softened by a fall in imports from the EC, from Italy and France in particular. Moreover, manufacturers in the Far East and elsewhere concentrated on the production of slippers and sports shoes, rather than on the leather footwear made by the bulk of the British industry.

These "mitigating" factors ensured that shoe-makers in Britain emerged relatively unscathed from the problems of 1987. Order-books became rather thin from the summer onwards, but the industry was spared the scathing cuts and closures which were sweeping through Italy.

But the full effects of the fall in the dollar will not be felt until the spring. Manufacturers are less confident that they will be able to withstand a further

influx of imports in the coming year.

The conclusions of the latest Cambridge Economics study of the prospects for the clothing and footwear sectors are scarcely encouraging. It anticipates an influx of imports in the coming year.

The combination of a surge in cheap imports, a slump in consumer spending and a sluggish retail sector is scarcely cheering. Mr Nicholas Calvert, director of trade at the British Footwear Manufacturers Federation, said that the industry is "very concerned" that all three factors will impinge on its prospects in 1988.

Cambridge Economics expects that domestic demand for footwear will fall by 1.7 per cent this year and that employment in the two industries will, in consequence, be reduced by 5 per cent.

Mr Christopher Marsland, managing director, concurs that new technology is essential for the future of the industry "but," he said, "the level of investment required is now so high that it would take a brave decision to invest in the current climate."

In recent years these big companies have invested heavily in

new technology in order to improve productivity and reduce unit costs. Having invested with their counterparts in Italy, France and Spain. The industry as a whole increased output per employee by almost a quarter between 1982 and 1986. The reverse of the industry's increase has been higher.

These companies are pinning their hopes on new technology to help them to survive in an increasingly competitive climate.

Clark is still committed to its expansion programme - which involves the construction of its first new production plant in Britain since the 1960s - despite the lack-lustre nature of retail trade.

Similarly the FFI Group will continue to pursue the modernisation programme for its plants in South Wales, the East Midlands and Northern Ireland. Mr Monty Sumray, its chairman, is convinced that reducing the labour intensity of the production process through the introduction of new machinery is the only sensible route for the industry.

But the British Shoe Corporation is more circumspect. Having overhauled its shoe retailing interests in early 1987, it embarked upon a review of its manufacturing activities towards the end of the year.

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Despite dire warnings from politicians...

Farmers still await budgetary results

WHEN Mr John MacGregor was appointed Minister of Agriculture last June, he promised farmers, in almost Churchillian phrases, a most difficult time. The whole system of open-ended guarantees for food was to be held and surplus eliminated. Some land would be taken out of farming and other uses would be found for it. Possibly it would provide amenities for the inhabitants of these overcrowded islands.

That was six months ago and farmers are still awaiting a resolution of the budgetary crisis which could threaten both prices and production. But British farmers on the whole seem to be remarkably relaxed about the whole situation.

In the first place they have heard a good deal on the same theme previously - and nothing has happened. It is not as if they are particularly relaxed about the whole situation.

The 1987 harvest was probably the worst of the decade and there is a definite shortage of quality grain, so prices for what was saved are very good. No wonder they think Mr MacGregor is crying wolf.

Inside this broad picture some sectors are having differing fortunes. When milk quotas were introduced in 1984 dairy farmers thought that the end of the world had come but now they would not be without them. Although quotas have not yet reduced supplies, recently over the Community for complete dairy stability, they have given dairy farmers an increase in equity. In the UK at the moment a quota is worth about \$1,500 a cow.

Small wonder, then, that the quota principle is attractive to farmers in other lines of production which could be in oversupply before long. This is not to the

taste of the UK Government which does not think the rigidity of a quota system that provides a high price for the product by means of restriction on output.

Not that quotas as such have been proposed for cereals and other products. There are suggestions of a voluntary set-aside of land which would otherwise be sown to cereals. So far, the compensation for farmers taking up these proposals do not seem very generous and they are also rather short-term.

Of longer-term interest is a proposal for planting woodlands with up to 40 years for replanting broad leaved woodlands and hardwoods, which have been appearing in favour of the universal pine trees. There is apparently quite an interest in this but there is a question, how long the planting grants will last. There is an old phrase to the effect that no Government can bind its successors and a successful hardwood forest would be at least a century in maturing.

It is almost certain that some form of short-term set-aside for arable land will be instituted for the EC. The West Germans have been trying out a similar scheme in which finance is going to be a national responsibility. Not all member countries agree with this, nor does the EC as it means the national rather than Community responsibility.

UK farmers would accept this but there is a marked difference in approach between farmers and the Government. The latter wants the scheme to be voluntary so that farmers will offer their own land. But farmers on the poorer soils do not see why they should be penalised from growing grain, just because their land is not the best.

Continued on next page

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UK INDUSTRIAL PROSPECTS 8

FT writers examine the prospects for the advertising industry and several key companies in other sectors



Some of the leaders whose agencies have flourished with the expansion of the UK advertising industry: from the left, Charles and Maurice Sartich; Robin Wight of WCRS Group; Frank Lowe of Lowe Howard-Spink; and Martin Sorrell of WPP Group.

Advertising is keeping a wary eye on business confidence

Growth likely to slow down

OPTIMISM MAY seem misguided in the wake of Black Monday, but the UK advertising industry is counting on a prosperous enough 1988.

Most people in the business predict that, after 11 years of vigorous growth - save for a blip in 1981 - advertising expenditure will continue to grow, though at a lesser rate. As far as anyone can judge therefore, the net effect of the stock market downturn will be to temper the advertising spiral.

The Advertising Association, which has monitored industry progress through both fat and fallow years, warned of a crash in its September forecast of advertising expenditure to mid-1989. But it has since shaved its figures down only a fraction. For 1988, Mike Waterson, the AA's research director, expects a reduction of one quarter of a percentage point to 4.5 per cent growth in real terms of advertising expenditure. (This follows a growth rate of 11.3 per cent in 1986, which brought revenues to a record \$5.1bn.)

Mr Waterson bases his figures on the fact that the UK economy, one of the best performers of this, he says, is job recruitment advertising which is "booming as never before."

He adds the rider, however, that should the economy hit, then inevitably ad revenues would suffer, since advertising

is unquestionably linked to economic activity. One of the real dangers in a sustained stock market fall is the loss of business confidence it inevitably brings in its train. This makes it increasingly hard for companies to raise capital and the Government to raise cash. Such effects could spill over and cause economic downturn, the AA warns.

Consumer expenditure, which along with company profits is regarded as the barometer of advertising health, is also expanding. The annual growth rate of about 5 per cent is comparatively high, says Mr Waterson, though it is unlikely to continue at this level.

Many leading advertisers appear to echo this positive mood, although so far they have been tested in theory only. The real proof, according to many agency chiefs, will come in the spring when budgets are reassessed.

A Mori poll, conducted among 53 top marketing and advertising directors and published on November 27 by Campaign magazine, ended on an upbeat note. Two-thirds of those questioned predicted the economy would improve in the coming year. Nearly seven out of 10 said their company was prepared to spend more on advertising in the next 12 months. And the bigger the company, the more likely it was to increase its advertising budget, though less

likely to support public relations, sales promotion, design and market research. More than half the directors thought sales would remain static and a quarter expected a small increase.

City observers argue that advertising is becoming more recession-proof. Events over the past two recessions, in the early 1970s and 1980s, suggest that fierce cutbacks are unlikely.

"Advertising has become an essential ingredient in marketing with the power of retail and self service," says Paula Shea, analyst with stockbrokers Hoare Govett. "It is vital for manufacturers to keep their messages in front of both retailers and consumers."

Many consumer goods producers have learnt the lesson of the "leaky bucket" theory. This implies that a company's customer pool is constantly dropping out of the bottom of the bucket and in need of marketing attention to keep the level topped up. Companies which failed to advertise in the 1970s saw their consumers fall dramatically and learned that tempting them back was costly and far from instant. In that crisis, they were obliged to turn to sales promotion, that instant shifter of products.

More likely to be cut before advertising are other marketing services, public relations and market research, Ms Shea main-

tains. And even if the outlook does turn bleak, advertising is one of the quickest industries to trim its sails accordingly. This became clear in the 1970s recession when revenues tumbled by 24 per cent and hundreds of employees were forced to leave the business.

The 1981 downturn was "another story. The cuts then were worst in capital goods companies which shed staff, rather than in advertising budgets.

Today, the effects of a recession, should it happen, would be tested," says Mr Sheppard.

While UK agencies across the board report no real cutbacks in budgets for 1988, many feel that 1989 could bring the real test, however.

Whatever the soothing words from some forecasters for the time being, many eyes will be firmly fixed on the US, where belts are already being tightened. According to Adweek, the trade magazine, the big agencies have cut staff by 10 per cent, on average.

As for the US outlook, Bob McCann-Erickson recently predicted a 9 per cent (in real terms) growth in total spending on ads, a reduction of half a per cent on pre-crash estimates. So the message of growth, if dimmed, is constant on both sides of the Atlantic.

brands," says Mr Mark Sheppard, analyst with Phillips & Drew. "This point has been drummed home by the hectic takeover activity of the last couple of years when brands have been the target."

For agencies, the effects of the stock market crash will be to curtail their acquisitive instincts, which many observers felt was taking their eyes off the main core business - "a lot of management, which have only ever known the good times, are going to be tested," says Mr Sheppard.

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Flurry of activity fails to lift unease

IN THE 1970s, the General Electric Company was one of the most admired companies in Britain. Its managerial methods were revered and copied; its structure was regarded as a model for a diversified industrial group; its tough approach to managing its workforce and its assets were seen as highly successful in a period of deep labour unrest; and the creation of its famous cash mountain was widely admired during a time when financial assets could easily earn more than manufacturing capital.

Today, the perception of GEC is very different. Indeed, in the past three years or so, the company has been subjected to a number of reversals. Its profits have stagnated, its reputation with stock market investors has been hit, and its record as a company with a sure touch in the takeover market suffered a serious setback with the collapse of its hostile bid for Plessey.

Even worse, its standing as one of Britain's most efficient manufacturers was undermined by the Ministry of Defence's decision not to go ahead with the proposed new Nimrod airborne early warning radar project.

Since the Nimrod affair, however, a new growth strategy has begun to emerge at GEC. The company has made it clear that it has not ruled out the big, blockbuster type of takeover - the sort of deal it was planning with Plessey - that would radically change the shape of the group as a whole. But in the absence of suitable candidates for large-scale acquisitions it has turned the green light to its divisions to chase after transactions that would give them more weight in their own markets.

This shift towards more emphasis on division-led acquisitions has been accompanied by a new enthusiasm for the alliance concept that has become fashionable elsewhere in industry. The company has shown itself increasingly willing to stop

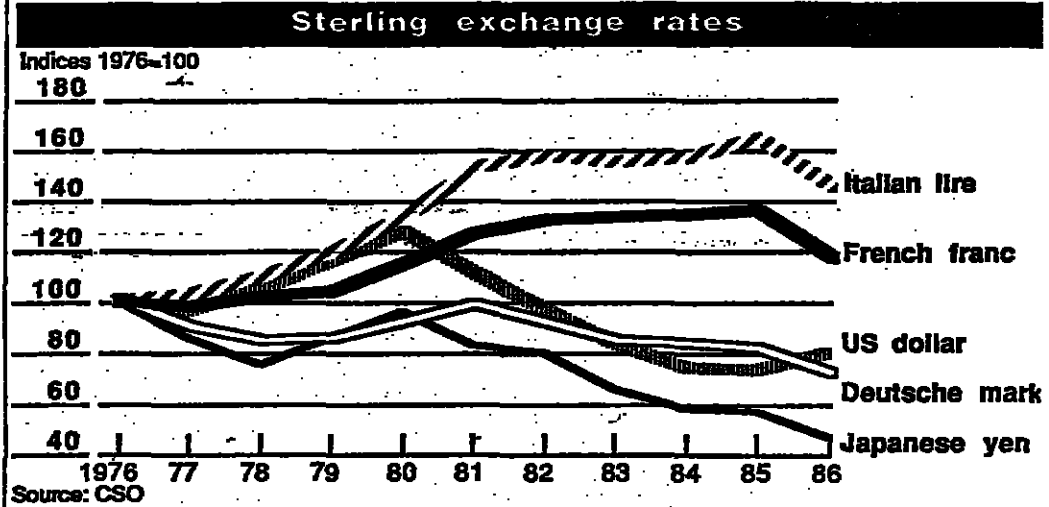
short of outright control, accepting a half-share in businesses where such collaboration will yield the potential of additional markets or more effective research and development.

Among the long list of agreements struck since this policy began to take effect are:

- The joint telecommunications company set up with Plessey. This company, still in the process of reorganisation, will bring together the private and public switching interests of the two groups.
- The collaboration agreement with Philips of Holland to combine the two companies' medical equipment activities. The joint business will have a strong base in the US through GEC's Picker company, and an equally influential position in Europe through the Philips activities.
- A \$200m expansion in the US defence electronics field through the acquisition of Lear Siegler's electronics division. GEC will more than double its US military business with this deal, to sales of about \$300m.
- The \$250m purchase of the Gilbarco petrol pump and service station equipment manufacturing group in the US. This deal will give GEC a further entry into the fast-expanding market for electronics-based equipment and services at petrol stations.
- The acquisition of a controlling interest in the measuring equipment business of Berkel in the Netherlands.
- A \$18m acquisition of the Micro Scope software group.
- Hotpoint's \$120m purchase of the Credo domestic appliance division from the TI group.
- A joint agreement with a group of American companies on the development of a new aero engine for the commuter turbo prop market. The project, under the leadership of General Electric of the US, brings the UK company together with Garrett, Textron and Bendix.

Despite this long list of transactions, there is no sign that

Terry Dodsworth



Assets redeployed to help finance regeneration

Uplift for Woolworths

IT IS NOW five years since the Paternoster takeover of Woolworth - when institutional investors, tired of the continuing decline of the company, combined in a \$310m buy-out and brought in new management. Since then, massive changes have been wrought on a business which had seemed almost past saving. And while the restructuring of Woolworth is not complete, and in a sense never will be unless it atrophies again, the progress made has earned its shares a rating far above that at the time of the takeover. The group is now capitalised at over \$1bn even after the stock market crash. Perhaps more significantly, shareholders last year were prepared to back Woolworth against a hostile bid worth \$1.8bn from rivals Dixons.

The key to the changes at Woolworth is perhaps the attitude of the management to the original Woolworth high street chain. That chain was not sacred and where its assets could be used better they should be redeployed.

The value of those assets was such that, although Woolworth was earning a minimal return on them at the time of the takeover, they could be used in part to finance the regeneration of Woolworth.

It is now only one part, though still the most important, of a group of retail chains. Mr Nigel Whitaker, the group's director of corporate affairs, speaks of the company almost as though it were a diversified industrial group.

The various chains are "retail brands" which need to be developed and are at different stages of maturity, though all with strong market positions. The Woolworth group is wedded to none of them. New brands are being tested and expanded to take up the running as others mature.

The approach is not that of traditional retailers but of professional managers. There is no attempt to justify the group by resorting to the word synergy or to suggestions that a central direction of the economy would link all the chains. Each one is distinctive with its own strategy.

The most profitable of the chains, in the financial year ended in January 1987, was B & Q, the D-I-Y stores. The basis of this business had been acquired by the old Woolworth management.

Here an aggressive competitive stance is being adopted in time for the saturation of the market which Mr Whitaker foresees in two years' time. "We must win

the end game now," he says, listing plans to expand, increase the marketing effort, develop an own brand and improve efficiency by putting electronic point-of-sale equipment in all the stores. According to a recent report by Verdict Research, the retail analysts, B & Q's market share is well ahead of any of its rivals.

Comet, the electrical chain Superdrug, the fast-growing US-style drugstore chain. Here the link with another part of the group is more important. For while B & Q and Comet are sited out-of-town, Superdrug shops trade in the high street.

This enables the Woolworth chain to get rid of excess space, often in the oddly shaped sites which are a legacy of the company's long history. Mr Whitaker offers the example of the Woolworth store in Abingdon where 30 per cent of the space was turned into a Superdrug shop, while Woolworth retained 80 per cent of its former business in a smaller area.

The Woolworth chain itself has such an engrained image in

consumers' minds that changing the formula must be a slow process. Phase One of a strategy dubbed "Focus" has now been completed with the reorganisation of the merchandise from a confusing multitude of lines into six broad categories, in many of which Woolworth is market leader.

Phase Two will give Woolworth a portfolio of stores where the formula can work profitably. Woolworth does not succeed in large sites.

Mr Whitaker explains: "Woolworth is not a format we would invent today. It is not one for the 2000. But it is the one Paternoster bought five years ago and one which has been made very profitable."

Woolworth's huge property portfolio - worth around \$900m - can now be put to better use. Indeed, Woolworth expects to generate continuing profits from property rental and development.

Mr Archie Norman, the group finance director, lists examples of deals being done. A 40,000 sq ft store in Southampton, plus other stores from its stockroom, will be flattened to make way for a \$20m development of a 110,000 sq ft shopping mall, making

profits for Woolworth of "a few million".

Similarly, a 45,000 sq ft store in Milton Keynes is being reworked to give a 20,000 sq ft Woolworth store and four others, the latter Mr Norman puts at "several million".

At the same time, all stores within the group are charged a market rent by the property company, an important discipline for the retail businesses.

So far the stock market fall seems to have had little effect on consumer confidence, with Christmas widely believed to have been another record.

Even so, says Woolworth, the crash has had the effect of crystallising in people's minds events which might have happened anyway.

The effect this has had on expansion plans has not been great but Woolworth has slightly raised the hurdle rate which capital spending projects must exceed to get the go-ahead. As a result, spending will be a few million pounds less than planned. And the cash-generating propensities of retailing will be more important than ever.

Maggie Urry

IN 1987 T&N changed its name from Turner & Newall. While the change made official a common shorthand for referring to the building materials and engineering group, it was appropriate because T&N is the same company that nearly collapsed earlier in the decade.

Under the leadership of Sir Francis Tombs, who chairs T&N and Ron Royce, T&N has been transformed from an asbestos mining and building materials group to an engineering company producing largely for the automobile industry. The takeover, which took a big step forward last year as T&N began to integrate AE, the automobile parts engineering company, after a bitter takeover battle at the end of 1986.

The purpose of the takeover was to improve the quality of T&N earnings by reducing dependence on Africa and taking it further out of the cyclical building industry.

That was achieved, although at a high cost. Analysis are still

debating precisely the extent to which the issue of new shares in connection with the takeover has diluted T&N's earnings. When interim results were released in September, Sir Francis said this dilution was minimal.

Still, that is history. More important is the progress T&N reports in bringing AE under its own management discipline.

AE was a respected company known for its high technology applications in the motor industry, where it was a major supplier of light pistons. T&N, by contrast, worked in the somewhat lower and very different technologies of brake system products, including linings.

During the bid period, one of the most serious red flags was raised by General Motors, a

major AE customer, which expressed concern that the quality of AE products could be affected under a new owner.

With the first interim behind him, Sir Francis emphasises that the GM relationship is strong and growing, with new contracts for the Buick and Cadillac divisions.

Early reports on progress in integrating the AE businesses are fairly encouraging, although this is an area in which only the long run will provide the answer.

Most of the AE management has stayed on. By the end of 1987, the unbidding of AE's tightly centralised management structure had been virtually completed. Management controls and most research and development activities have been devolved to the operating divi-

sions, while a central R&D centre has been established at Rugby for group-wide projects. Total R&D spending has not been cut, as had been feared.

The task ahead is to continue improving the operating performance of the AE subsidiaries. Major saving levers lie in reducing staff from 350 jobs. Turnover per employee has also risen. At Wellworthy, which produces pistons, piston rings and cylinder linings, this figure rose nearly 10 per cent from \$20,800 to \$22,700, with a target of \$30,000.

Critics of the takeover had argued that no marketing advantages would accrue from combining the two very different automotive engineering businesses of AE and T&N. With the major automotive producers contracting out for more and more sup-

Steven Butler

British & Commonwealth

Ready for a year of consolidation

IN MARCH, when British & Commonwealth Holdings transfers its City head office from St Mary Axe to King Street, Mr John Gunn at last will feel master in his own house.

This conclusion may be surprising, considering that few watchers of the sprawling financial services and industrial holding company can resist at least an occasional lapse into the over-simplified personification: B&C - John Gunn and his holdings in other transport services, industrial and office equipment concerns.

The intention is to float Bricom as a package - its estimated worth of \$400m is nearly one-third of B&C's market capitalisation - although piecemeal disposals cannot be ruled out.

This will complete the evolution of a company whose profile is still so low that it finishes near the bottom in name-recognition when fund managers, stockbrokers and the man in the street are asked last year to identify the main business of Britain's 100 largest companies.

The anonymity, however, was understandable. Arguably, B&C has only recently begun to have a main business again after several decades as a sleepy family-controlled holding group, with a bit of this and a bit of that replacing a shipping fleet that dwindled, finally to nothing, with the British Empire.

That main business now includes, in addition to Ecoo and Abaco, the Gartmore and Oppenheimer fund management groups (the latter acquired with Mercantile House), a merchant bank, a leasing company, a real estate investments, as well as one in Stock Beach, the Bristol stockbroker which is unlikely to be sold, and its only venture in this field at the end of 1988.

The purchase of US-based Oppenheimer was not as badly timed as it appeared. Strong in money markets and bond funds, and only 40 per cent invested in

equities in mid-October, it was bought to hedge Gartmore's equity-based professional exposure. "We didn't want it to be proved right," Mr Gunn says.

B&C plans to increase its venture capital activity this year. It is likely to free funds for this by disposing of some of its listed investments. This will also have the merit of contributing to a general "tidying up" of B&C's holdings.

The crash-delayed flotation of London Forfaiting, the trade finance company, 85 per cent owned by B&C, should proceed early in the year. Milestone Leasing and parts of the Kaines commodities trading operation, which lost millions on copper contracts in 1987, are also believed to be on the block.

The Abaco acquisition, meanwhile, holds few precedents for other B&C associate companies. In the wake of the crash, Abaco was not going to be able to continue its acquisition by share issue, and so welcomed the security that came with the loss of independence.

It remains to be seen, however, whether Abaco's peculiar brand of motivating its managers (the former owners of estate agents, chartered surveyors, insurance brokers, loss adjusters and other fee-based professional services) will survive the eventual end of independence.

In December, B&C signalled that its own immediate expansion was unlikely to be funded through equity, with a \$100m domestic UK issue of 25-year loan stock.

The City's faith in Mr Gunn has rarely wavered, but it will welcome a slight pause for breath. It is also beginning to get the picture that B&C's management is more than one man, recognising the merits of the loan Mr Gunn brought into the company, chief executive Mr Peter Goldie and Ecoo chairman Mr Richard Lacy in particular.

Clay Harris

T&N Progress continues

SECTION II - COMPANIES AND MARKETS

FINANCIAL TIMES

Monday January 4 1988

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THE EUROBOND MARKET

Long-term placing power emerges as key to survival

"This was a time of deep depression in the Eurobond market, barely any trading or issuing houses were making a profit and several trading houses closed their doors completely. Others did not even bother to pretend that they made genuine two-way prices any more, but would deal only on a negotiated basis. The year being described here was not 1987, it was 1974."

As Mr Ian Kerr, a Kidder Peabody executive, observed in his 1984 History of the Eurobond Market, published by Euromoney Publications, the market feared imminent death in those dark days. First, investors had lost faith in the dollar fixed-rate bonds which had been the market's mainstay. Second, the Arab-Israeli war of 1973 and the oil price rise had created inflationary fears and drastically weakened stock markets. Third, an inverted yield curve created a negative cost of carry which discouraged holding bond inventories.

To top all this, the US Interest Equalisation Tax, which had been thought to be fostering the Eurobond market's growth at the expense of the Yankee bond market, was repealed in 1974. In that year, Eurobond new issue volume dropped to its lowest level for seven years: just \$1.9bn, compared with the record \$5.5bn in 1972. But the market did not die. New issues in 1975 surged to \$2.8bn.

In 1987 - a bad year throughout, not just in the latter stages - the mood probably became more gloomy than in 1974. Houses closed their Eurobond operations. Profits were thin or non-existent. Secondary market liquidity was in question. There was widespread disillusion with dollar bonds. New issue volume dropped. Stock markets crashed. But Eurobond new issue volume was \$1.43bn, still an impressive total even if it was 22 per cent below the record \$182.5bn of heady 1986.

Clearly, the most important difference with 1974 is one of scale. The Eurobond market is huge by comparison with its earlier days and is thus likely to be even more resilient in tougher times. But its extraordinarily rapid growth has also made its players vulnerable.

Though many domestic markets have been deregulated, the freedom of entry into the Eurobond market remains unparalleled even after the UK Financial Services Act comes into effect this year. Anybody has been able to set up a Eurobond operation. And since the market's recent growth has coincided with the vagrancy of globalisation of financial markets, almost everybody did. It was an easy way to suggest that you were an international securities firm. Commercial banks particularly needed to do this because they faced the dismantling of long-standing corporate relationships as their customers headed away from bank loans towards the securities markets.

This and the unsustainable explosion in new issue volume created huge overcapacity. A shake-out in the Eurobond market was already occurring before the October stock market crash. Now financial firms have an even more pressing need to weed out unprofitable operations.

The widespread expectation is that many more closures and redundancies in the Eurobond market will follow those of 1987. Two banks which featured in the 1985 table of the top 20 lead managers - Orion Royal and Lloyds - have quit the market. 1988 can be expected to produce other prominent departures from issuing and trading, as well as many quieter drop-outs by houses which never had a properly thought-out commitment. Hardier participants will consolidate their positions as they have done before.

Poor liquidity has been cited by trading firms for quitting the market, and institutions have also voted silently on this point by abandoning Eurobonds and investing elsewhere. A liquidity premium has developed. Loss of trading firms should, in theory, create lots of liquidity. But no market can exist for long if it is simply a pass-the-parcel game. There simply were not enough borrowers and investors to keep all would-be players going. The survivors will be those that have long-term placing power.

Problems in trading have been highlighted by the sudden drying up of liquidity in certain sectors during the year, such as

Manager	1987				1986			
	\$m Amount	Rank	Market share %	Issues	\$m Amount	Rank	Market share %	Issues
Nomura Securities	19,200	1	13.4	122	14,803	2	8.1	131
Credit Suisse First Boston	9,400	2	6.6	75	20,012	1	11.0	103
Deutsche Bank	8,232	3	5.8	68	12,444	3	6.8	91
Nikko Securities	8,020	4	5.6	58	5,141	10	2.8	54
Yamaichi Securities	7,551	5	5.3	74	4,440	12	2.4	59
Haita Securities	7,552	6	5.3	70	8,943	5	4.9	86
Morgan Guaranty	5,342	7	3.7	46	9,896	4	5.4	65
Morgan Stanley	5,187	8	3.6	36	8,674	6	4.8	72
Salomon Brothers	4,461	9	3.1	36	8,235	7	4.5	54
Barings Brothers	4,453	10	3.1	42	7,002	8	3.8	66
Industrial Bank of Japan	4,169	11	2.9	41	3,034	16	1.7	25
S.G. Warburg	3,926	12	2.7	36	2,788	18	1.5	24
Union Bank of Switzerland	3,257	13	2.3	26	4,874	11	2.7	46
Commerzbank	2,754	14	1.9	28	2,713	19	1.5	39
Dresdner Bank	2,717	15	1.6	20	1,695	23	0.9	16
Swiss Bank Corp.	2,149	16	1.5	24	2,886	17	1.6	23
Goldman Sachs	2,139	17	1.5	19	3,621	14	2.0	22
Barings Brothers	2,066	18	1.4	17	1,745	29	1.0	11
LTIB of Japan	2,001	19	1.4	15	2,678	20	1.5	23
Bank of Tokyo	1,796	20	1.3	17	1,345	31	0.7	15
Industry Totals	142,997			1,377	182,552			1,621

1987 Rank	Currency	1987		1986	
		Total raised (\$bn)	No. of issues	Total raised (\$bn)	No. of issues
1	US\$	59,919	496	114,710	826
2	Yen	23,530	165	18,120	160
3	Sterling	14,436	117	10,605	79
4	D-Mark	14,265	128	20,045	179
5	AS	9,180	192	3,561	91
6	Esc	7,455	70	7,104	81
7	CS	5,996	93	5,179	87
8	FFr	2,074	19	3,476	46
9	NZ\$	1,494	27	0,561	15
10	DKr	1,407	32	1,120	27

floating-rate notes and corporate Eurobonds, amid uncertainty about the US-Netherlands Antilles tax treaty. The large traders meanwhile refused to have an automated screen quotation system which would improve market transparency. But liquidity difficulties should not be over-emphasised. The market has never been particularly liquid except in large key issues - nor indeed are government bond markets except in benchmark issues. In any case, as CSFB points out, the liquidity of a corporate Eurodollar bond should not be compared with that of a US Treasury, but with that of a US domestic corporate bond. "In such a comparison, the Eurodollar market emerges quite favourably."

Some of the beneficial effects of the shake-out have already been seen. Many issues were made in the latter part of 1987 with eminently sensible pricing and were well absorbed. The days are all but gone in which borrowers could win any terms they liked through syndicate bidding for mandates and syndicate members would come into loan-making deals to maintain a relationship with the issuer.

There have also been indications that there is still a role for Eurobond issues even though barriers between domestic and international markets have been breaking down. West Germany's intention to impose a 10 per cent withholding tax from next year has boosted international demand for D-Mark Eurobonds by comparison with domestic bonds. Japan's plans to tighten its application of withholding tax have dried up international liquidity in certain types of government bond and increased the attractions of Euroyen bonds for foreign investors.

However, the offshore nature of the Eurobond market is overshadowed by an important threat. This year will see the imposition of the UK Financial Services Act. It has already

imposed, and will continue to, an entirely new set of costs and constraints on a Eurobond market fighting for profitability. But the discussion which has been latent among Eurobond market participants - those in London essentially prepared to go along with UK regulation, those elsewhere seeing no reason why they should - seems likely to break out into the open as rules are actually introduced.

Not all sectors of the international bond market have been languishing in 1987. The Swiss franc market - not included in our tables - has been flourishing with over 400 foreign bond issues worth more than \$23bn, virtually unchanged on 1986. The sterling sector has also had a good year, pushing S.G. Warburg and Barings Brothers up the tables.

In a year dominated by the Japanese houses - helped by the strength of the yen and by equity-linked bonds - the durability of CSFB and Deutsche Bank is striking. Dresdner Bank has re-emerged as a force. Though several of the US houses have held on to high positions, Merrill Lynch, which came second in 1986, has dropped just out of the top 20, according to the data from IDD Information Services. Shearson Lehman - from 13th to 28th - and Societe Generale are the others to have slipped.

The positions of most of the top players are considerably better than in 1986. Japan's market share is almost as large as CSFB's 14.3 per cent in 1985. Mr Hiroshi Toda, the syndications chief who led Nomura's drive and has now returned to Tokyo, has left behind a challenge.

Alexander Nicoll

SAUDI BORROWING

Riyadh decides to end 25 years of abstinence

A NEW government securities market will open this year in Saudi Arabia, though it is still unclear what form the bonds will take and who will be able to buy and trade them.

In an important break with tradition, Mr Mohammed Abulhail, the Saudi Arabian Minister of Finance and National Economy, announced last week that the Government would issue SR30bn (\$8bn) in debt instruments to help fund a \$10bn deficit on the \$37.5bn budget.

The projected budget gap is lower than 1987's but follows years of deficits which have been partly financed by using up reserves. These in turn are less strong than in the past as oil revenues decline. The Government has thus decided to end its 25-year abstinence from borrowing. So far, there is no indication that it might tap foreign markets.

Publication of details of the bonds is being forbidden by the Government, which indicates that it already fears a backlash from religious conservatives. The Kingdom's capital markets are extremely underdeveloped and that is the way the conservatives like it.

The conflict is linked to the old bugbear of Saudi finance: interest. Saudi Arabia operates according to Islamic Sharia law, which expressly forbids the giving or taking of interest.

Bankers expect the Government to get around the interest problem by offering bonds on a discounted basis, after the fashion of the Bankers Secured Deposit Accounts (BSDAs) offered in 30, 91 and 180-day maturities by the Saudi Arabian Monetary Agency (SAMA).

BSDAs have been offered to banks since early 1984. Initially, the rates offered on the discounted notes were not competitive and banks could not resell the notes. Now, rates are somewhat better, and the Government offers a repurchase facility.

The Saudi Government is hoping to tap a large domestic pool

of liquidity. According to the latest SAMA statistics, total cash in circulation is SR38.81bn, demand deposits account for SR47.57bn, while time and savings deposits, plus quasi-monetary deposits amount to SR74.36bn. The money supply measure M1, which covers demand deposits plus currency in circulation, totals SR86.38bn, of which 45 per cent or SR38.87bn is privately held. M2, another measurement including M1 and time and savings deposits, totals SR127.36bn, of which 52.4 per cent, or SR66.73bn is privately held.

The Kingdom's 11 commercial banks are due approximately SR76.6bn from foreign banks and have lent only SR56bn in the Kingdom. Actual surplus liquidity is around SR60bn, according to some bankers.

The actual form the debt instruments will take is not yet clear. SAMA may offer them only to banks or may issue them in denominations small enough for private investors. "We think that would be best, because it would encourage a businessman to invest directly in his country," one banker said. The Government must also decide whether the bonds can be resold.

This will be a major step in developing the Kingdom's infant capital markets. The stock market's central trading hall remains closed.

Finn Barre

EUROMARKET TURNOVER (\$m)

Primary Market	Straight				Conv			
	US\$	Yen	DM	Other	US\$	Yen	DM	Other
1987	230.7	8.5	0.0	0.0	47.4	1,957.7	1,957.7	1,957.7
1986	379.3	0.0	0.0	32.4	164.9	1,649.0	1,649.0	1,649.0
1985	1,659.9	254.9	174.7	183.6				

Secondary Market	Conv				Eurodollar			
	US\$	Yen	DM	Other	US\$	Yen	DM	Other
1987	11,117.3	2,054.3	10,024.8	6,115.0	4,961.1	4,961.1	4,961.1	4,961.1
1986	7,418.2	812.1	862.1	4,961.1				
1985	17,964.0	1,052.4	2,538.9	13,415.1				

Week to December 31, 1987. Source: AIBD

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INTERNATIONAL CAPITAL MARKETS

UK GILTS

Institutional support under test this week

IF THERE was one thing which kept spirits in the gilt-edged market buoyant throughout most of December it was the belief that institutional support would return to the market in the New Year.

Surveys of institutional intentions and a mountain of anecdotal evidence suggested at year-end that institutional cash positions were being increased - partly for window-dressing purposes - and that a lot of this cash together with a higher percentage of normal cash flows would be dedicated to the gilt market this year.

The long period of waiting is now to be over. Market makers should receive an unambiguous answer to the question when, as it is believed, the Bank of England announces the terms of its third and last experimental gilt auction (of medium-term stock) on Wednesday or Thursday.

A factor supporting the auction is that January is a good month for dividend payments. About \$1.75bn should be paid out which more than covers the second and final call on the December 16 \$1bn convertible gilt tender and an auction of up to \$1bn.

The Bank can issue a stock as short as seven years and as long as 15 years. According to Mr John Shepperd of Warburg Securities, if the Bank opts for the shorter end of the range it could be a very attractive stock to foreign investors. If, like the convertible tender, it were free of tax, it would be even more so.

Foreign investors have been aggressive purchasers of gilts and have more than funded the PSBR so far this financial year.

In this they have been supported by an unusually long period of a stable to appreciating pound. On the currency alone, an unhedged US investor made 24 per cent over the course of 1987.

How the stock trades in the week between the announcement and the auction should prove a useful guide to the institutional appetite for gilts.

Tomorrow's release of December figures for UK foreign currency reserves is one market-sensitive economic statistic out this week but it ought not concern the gilt market unduly. This is so even though reserves, which stood at \$41.3bn at the end of November, could have risen significantly last month.

Although the Bank did not participate aggressively in the co-ordinated foreign exchange market intervention last week, it

is thought to have intervened heavily during the first two weeks of December when the pound threatened to rise above its DM3 cap.

Although some forecasters are predicting a very low rise in underlying reserves, others, such as Mr Stephen Lewis of Phillips and Drew, have upgraded their earlier predictions and now believe underlying reserves could have risen by as much as \$2bn, or more, during December.

Given the healthy state of public finances, the issue of sterilisation of foreign currency reserves through the sale of gilts should be of less importance than it might otherwise have been in past years.

In the financial year to the end of November, the Bank was underfunded by only £1.2bn. A higher than expected growth in revenues together with a lower than forecast growth in outlays through the sale of gilts should produce another healthy PSBR figure. Add to this the \$950m in gilt issues during December and the funding picture looks very comfortable indeed.

But there are some concerns over the pound. Since the failure of Opec to reach a workable price/production fixing accord in mid-December, the pound has weakened slightly against the D-Mark. The test for the Government will come if sterling looks like weakening further against the D-Mark.

The rationale for DM3 is that by hitching Britain to the D-Mark inflation is kept under control - *de facto* membership of the exchange rate mechanism of the European Monetary System.

This has credibility, however, only if the policy is adhered to through time, or is symmetrical. "Symmetrical" is a word often heard in official circles. And it is not always uttered with a great degree of confidence. Further weakness in sterling, to around the DM2.90 level, should press for intervention in exchange markets to defend the pound, a rise in base rates, or both.

Either way it could prove a useful test of the Government's anti-inflation credentials, over which a degree of doubt still persists.

Simon Holberton

US MONEY AND CREDIT

Tokyo sets the trends for 1988

BY THE TIME you read this, the two biggest financial questions of the New Year may already have been answered. This morning, while brokers in London are still jostling in their commuter trains and traders in New York are still sleeping off the excesses of their extended celebrations, the markets in Tokyo will already have set the trends that could dominate the financial world for much of 1988.

When the Tokyo stock and foreign exchange markets were last simultaneously functioning, immediately after Christmas, the dollar fell three yen and the Nikkei index responded by collapsing 600 points. In the three days after that - formally public holidays in Japan - the dollar dropped a further two yen, with no bottom in sight.

How many holidaying traders with long dollar positions will have to run for cover as foreign exchange dealings get back into full swing around the world? And what will be the impact of the collapsing dollar on the Japanese equity portfolios frozen by the five day hiatus on the Tokyo exchange?

By Monday morning we may have a good idea about the answers to these all-important questions. And after the events of October it is quite conceivable that they will be answered in a dramatic manner. But what does the Tokyo stock market have to do with US bonds?

It is a commonplace observation these days that no lasting stability is likely in the US credit markets as long as the dollar continues to fall without any apparent limit. Given that efforts to stabilise currencies through international agreements and jawboning are rapidly losing credibility, there is only one reason why the dollar might stop falling in the months ahead: it has already fallen far enough. What "far enough" means is a shock to the Japanese economy exchange rate that is sufficiently

low to bring into a long-run equilibrium the flows of trade and capital investment between the US and its economic competitors.

Of course, nobody can know what that exchange rate might be until well after the event. After the many false dawns of the last year, the markets are likely to be particularly sceptical of claims that the US trade deficit is finally turning downwards. Since the October crash, they will be downright cynical about projections that Japanese investment will come to the rescue, offsetting financing trade deficits of \$100bn-plus a year until the end of the century. This scepticism explains why freely floating currencies have never stabilised without overshooting in both the upward and downward directions.

But, while it will never be possible to cry Eureka and declare that the right level for the dollar has now been reached, there are two fairly sure signs that they remain at the wrong level. This is where the Tokyo stock market comes in.

The first pointer to continuing currency instability is the difference in real interest rates between Japan and the US. Assuming prospective inflation rates of around 5 per cent in America and next to nothing in Japan, long-term real interest rates are actually higher in Japan than in the US. Given that the US authorities are obviously unwilling to raise their interest rates, the onus for currency stability is once again firmly on the Japanese.

However, the continuing speculative fever in the Tokyo equity and property markets has imposed a serious note on the market. Japan's willingness to loosen monetary policy further. Until a sharp reversal in asset values delivers a deflationary shock to the Japanese economy comparable to the one suffered

in the US and Europe since October, policymakers on the two sides of the Pacific will be talking about two very different worlds when they discuss the virtues of international monetary co-ordination.

The second indicator that the dollar has not yet dropped far enough is the state of Japan's corporate sector. Before the current realignment is completed, Japanese export industries must be hurt, and hurt pretty badly. Until this can be clearly demonstrated, the minimum necessary conditions for dollar stability will not have been attained.

The US trade deficit is never going to be narrowed rapidly enough by export growth alone. There can be no question of currency stability until the US also dramatically cuts its imports; and these import reductions will have to occur largely at the expense of the Japanese.

It would be absurd for American companies to focus on regaining world market share from Korean, Brazilian or Taiwanese competitors since no amount of currency devaluation could possibly offset these countries' labour cost advantages. Nor should the US seek to do this, since it would then lose out on all the benefits of comparative advantage and international division of labour.

Japan and Europe, on the other hand, are America's natural rivals. Whatever gains are made in the US current account will be at their expense. Europe, regarded as a unit, is much larger and less export-dependent than Japan.

Thus it is on Japanese exporting companies that the biggest

Anatole Kaletsky

FINANCIAL FUTURES

Chicago exchanges hit back at NYSE

LAST WEEK'S report by a New York Stock Exchange commission that called for sweeping changes in the way financial futures are traded has been greeted sceptically as "self-serving" by Chicago's futures exchanges.

Wary of being blamed by New York for October's stock market crash, the exchanges pointed to a lack of data backing up assertions made by the report.

New York's suggestion about trading a stock index futures contract on its own floor was seen as a cynical attempt to win back competition from Chicago's highly successful derivative products market.

"I don't know why they bothered with a report," commented Mr Merton Miller, who heads an independent panel set up by the Chicago Mercantile Exchange to look into the role of futures. "They could have taken all that out of their press releases."

Chicago's exchanges have been gathering their own evidence on what happened during the crash. They maintain that stock selling pressure would have been much worse in New York if the Windy City's stock index futures had not provided a safety valve.

"Any loss of public confidence in the capital markets was a result of the failure of the New York Stock Exchange Specialist System," stressed Mr Thomas Donovan, president of the Chicago Board of Trade - the world's biggest futures exchange.

The CBOT has long been critical of what it calls New York's "antiquated and monopolistic" specialist system.

While the CME, which trades the busiest stock index futures contract - the Standard & Poor's 500 - was making little initial comment on the report, in a statement, it pointed to Mr Katzenbach's lack of evidence that futures caused or exacerbated the October 19 crash.

"There aren't many facts in there," contends Mr Miller. "I don't know why it took so long to complete." Mr Miller, whose panel warned before Christmas of pushing out retail stock index buyers by raising futures margins, said he could not understand why Mr Katzenbach made such a "big deal" of this sort of speculation. "We found that retail demand didn't have much to do with anything," he noted.

Denying the need for stocks and stock index futures to be regulated by one agency, Mr Donovan said: "There is no reason to believe the NYSE would have performed any better if

Deborah Hargreaves

US MONEY MARKET RATES (%)				
	1 wk	1 mo	3 mo	12 mo
Prime (weekly average)	8.00	6.75	7.00	7.75
90-day Treasury bill	8.00	6.75	7.00	7.75
30-day Treasury bill	8.00	6.75	7.00	7.75
90-day Commercial Paper	8.00	6.75	7.00	7.75
90-day Commercial Paper	8.00	6.75	7.00	7.75

US BOND PRICES AND YIELDS (%)				
	Last Pt.	Change	Yield	1 wk
Seven-year Treasury	104 1/2	+ 1/2	8.57	8.56
10-year Treasury	105 1/2	+ 1/2	8.97	8.99
30-year Treasury	108 1/2	+ 1/2	9.48	9.48
New 10-year A Premium	96 1/2	0	10.00	10.12
New AA Long Issue	98 1/2	0	10.00	10.20
New AA Long Issue	98 1/2	0	9.50	9.50

FT/AIBD INTERNATIONAL BOND SERVICE											
ISIN	Face Value	Coupon	Yield	Price	Change	ISIN	Face Value	Coupon	Yield	Price	Change
US \$100M	100	8.00	8.57	104.50	+0.50	US \$100M	100	8.00	8.57	104.50	+0.50
US \$50M	50	8.00	8.57	104.50	+0.50	US \$50M	50	8.00	8.57	104.50	+0.50
US \$25M	25	8.00	8.57	104.50	+0.50	US \$25M	25	8.00	8.57	104.50	+0.50
US \$10M	10	8.00	8.57	104.50	+0.50	US \$10M	10	8.00	8.57	104.50	+0.50
US \$5M	5	8.00	8.57	104.50	+0.50	US \$5M	5	8.00	8.57	104.50	+0.50
US \$1M	1	8.00	8.57	104.50	+0.50	US \$1M	1	8.00	8.57	104.50	+0.50
US \$500K	0.5	8.00	8.57	104.50	+0.50	US \$500K	0.5	8.00	8.57	104.50	+0.50
US \$250K	0.25	8.00	8.57	104.50	+0.50	US \$250K	0.25	8.00	8.57	104.50	+0.50
US \$125K	0.125	8.00	8.57	104.50	+0.50	US \$125K	0.125	8.00	8.57	104.50	+0.50
US \$62.5K	0.0625	8.00	8.57	104.50	+0.50	US \$62.5K	0.0625	8.00	8.57	104.50	+0.50
US \$31.25K	0.03125	8.00	8.57	104.50	+0.50	US \$31.25K	0.03125	8.00	8.57	104.50	+0.50
US \$15.625K	0.015625	8.00	8.57	104.50	+0.50	US \$15.625K	0.015625	8.00	8.57	104.50	+0.50
US \$7.8125K	0.0078125	8.00	8.57	104.50	+0.50	US \$7.8125K	0.0078125	8.00	8.57	104.50	+0.50
US \$3.90625K	0.00390625	8.00	8.57	104.50	+0.50	US \$3.90625K	0.00390625	8.00	8.57	104.50	+0.50
US \$1.953125K	0.001953125	8.00	8.57	104.50	+0.50	US \$1.953125K	0.001953125	8.00	8.57	104.50	+0.50
US \$976.5625	0.0009765625	8.00	8.57	104.50	+0.50	US \$976.5625	0.0009765625	8.00	8.57	104.50	+0.50
US \$488.28125	0.00048828125	8.00	8.57	104.50	+0.50	US \$488.28125	0.00048828125	8.00	8.57	104.50	+0.50
US \$244.140625	0.000244140625	8.00	8.57	104.50	+0.50	US \$244.140625	0.000244140625	8.00	8.57	104.50	+0.50
US \$122.0703125	0.0001220703125	8.00	8.57	104.50	+0.50	US \$122.0703125	0.0001220703125	8.00	8.57	104.50	+0.50
US \$61.03515625	0.00006103515625	8.00	8.57	104.50	+0.50	US \$61.03515625	0.00006103515625	8.00	8.57	104.50	+0.50
US \$30.517578125	0.000030517578125	8.00	8.57	104.50	+0.50	US \$30.517578125	0.000030517578125	8.00	8.57	104.50	+0.50
US \$15.2587890625	0.0000152587890625	8.00	8.57	104.50	+0.50	US \$15.2587890625	0.0000152587890625	8.00	8.57	104.50	+0.50
US \$7.62939453125	0.00000762939453125	8.00	8.57	104.50	+0.50	US \$7.62939453125	0.00000762939453125	8.00	8.57	104.50	+0.50
US \$3.814697265625	0.000003814697265625	8.00	8.57	104.50	+0.50	US \$3.814697265625	0.000003814697265625	8.00	8.57	104.50	+0.50
US \$1.9073486328125	0.0000019073486328125	8.00	8.57	104.50	+0.50	US \$1.9073486328125	0.0000019073486328125	8.00	8.57	104.50	+0.50
US \$953.67191640625	0.00000095367191640625	8.00	8.57	104.50	+0.50	US \$953.67191640625	0.00000095367191640625	8.00	8.57	104.50	+0.50
US \$476.835958203125	0.000000476835958203125	8.00	8.57	104.50	+0.50	US \$476.835958203125	0.000000476835958203125	8.00	8.57	104.50	+0.50
US \$238.4179791015625	0.0000002384179791015625	8.00	8.57	104.50	+0.50	US \$238.4179791015625	0.0000002384179791015625	8.00	8.57	104.50	+0.50
US \$119.20898955078125	0.00000011920898955078125	8.00	8.57	104.50	+0.50	US \$119.20898955078125	0.00000011920898955078125	8.00	8.57	104.50	+0.50
US \$59.604494775390625	0.000000059604494775390625	8.00	8.57	104.50	+0.50	US \$59.604494775390625	0.000000059604494775390625	8.00	8.57	104.50	+0.50
US \$29.8022473876953125	0.0000000298022473876953125	8.00	8.57	104.50	+0.50	US \$29.8022473876953125	0.0000000298022473876953125	8.00	8.57	104.50	+0.50
US \$14.90112369384765625	0.00000001490112369384765625	8.00	8.57	104.50	+0.50	US \$14.90112369384765625	0.00000001490112369384765625	8.00	8.57	104.50	+0.50
US \$7.450561846923828125	0.000000007450561846923828125	8.00	8.57	104.50	+0.50	US \$7.450561846923828125	0.000000007450561846923828125	8.00	8.57	104.50	+0.50
US \$3.7252809234619140625	0.0000000037252809234619140625	8.00	8.57	104.50	+0.50	US \$3.7252809234619140625	0.0000000037252809234619140625	8.00	8.57	104.50	+0.50
US \$1.86264046173095703125	0.00000000186264046173095703125	8.00	8.57	104.50	+0.50	US \$1.86264046173095703125	0.00000000186264046173095703125	8.00	8.57	104.50	+0.50
US \$931.320220180968765625	0.00000000931320220180968765625	8.00	8.57	104.50	+0.50	US \$931.320220180968765625	0.00000000931320220180968765625	8.00	8.57	104.50	+0.50
US \$465.6601100904843828125	0.000000004656601100904843828125	8.00	8.57	104.50	+0.50	US \$465.6601100904843828125	0.000000004656601100904843828125	8.00	8.57	104.50	+0.50
US \$232.83005504524219140625	0.0000000023283005504524219140625	8.00	8.57	104.50	+0.50	US \$232.83005504524219140625	0.0000000023283005504524219140625	8.00	8.57	104.50	+0.50
US \$116.415027522621095703125	0.00000000116415027522621095703125	8.00	8.57	104.50	+0.50	US \$116.415027522621095703125	0.00000000116415027522621095703125	8.00	8.57	104.50	+0.50
US \$58.2075137613105478515625	0.000000000582075137613105478515625	8.00	8.57	104.50	+0.50	US \$58.2075137613105478515625	0.000000000582075137613105478515625	8.00	8.57	104.50	+0.50
US \$29.103756880655273928125	0.00000000029103756880655273928125	8.00	8.57	104.50	+0.50	US \$29.103756880655273928125	0.00000000029103756880655273928125	8.00	8.57	104.50	+0.50
US \$14.5518784403276369640625	0.000000000145518784403276369640625	8.00	8.57	104.50	+0.50	US \$14.5518784403276369640625	0.000000000145518784403276369640625	8.00	8.57	104.50	+0.50
US \$7.27593922016381848203125	0.0000000000727593922016381848203125	8.00	8.57	104.50	+0.50	US \$7.27593922016381848203125	0.0000000000727593922016381848203125	8.00	8.57	104.50	+0.50
US \$3.637969610081909241015625	0.00000000003637969610081909241015625	8.00	8.57	104.50	+0.50	US \$3.637969610081909241015625	0.00000000003637969610081909241015625	8.00	8.57	104.50	+0.50
US \$1.8189848050409546205078125	0.000000000018189848050409546205078125	8.00	8.57	104.50	+0.50	US \$1.8189848050409546205078125	0.0000000000181898480504095462				

INTERNATIONAL CAPITAL MARKETS

David Dodwell on the arrest of the HKSE's former chairman
The fall from grace of Ronald Li

WHEN Mr Ronald Li, the quiet former chairman of Hong Kong's stock exchange, gave his not-inconsiderable backing four months ago to plans for a share offering by Club Volvo, a local...

he won acclaim for forging Hong Kong's four bickering stock exchanges into a unified market, he had seen capitalisation almost double from HK\$260bn to HK\$450bn. Daily turnover had...

stockbrokers, with Mr Li holding powerful sway over his committee. When the market reopened, share prices slid more steeply than anywhere else in the world. Many blamed the closure for the extremity of the crash.



At the heart of the crisis was the bankruptcy of the futures exchange where Mr Li also held considerable sway. International institutions and major futures market players who were pressured to contribute to a HK\$2bn lifeboat fund for the futures exchange were also fierce in their criticism of Mr Li...

Even now, no foreign broker sits on the stock exchange committee, although they account for almost 70 per cent of stock market turnover.

In the wake of the securities industry crisis, the government has set in train a number of changes that have steadily eroded Mr Li's once unchallengeable control over the stock exchange and futures market.

A new executive has been appointed to the futures exchange, while on the stock market Mr Robert Fell, who recently retired as the territory's Banking Commissioner, has been hauled back from the UK to act as senior chief executive of the exchange.

Mr Ian Hay Davison, the former chief executive of Lloyd's of London, has been appointed to head an inquiry into the securities industry, and wide-ranging reforms are promised when he reports in the middle of the year.

The appointment at the weekend of a management committee to usurp the powers of the stock exchange general committee effectively eliminates Mr Li as a decision-making force on the exchange. Mr Jeffrey Sun has resigned as chief executive, and Ms Sue Selwyn, at present on the council of London's stock exchange, has arrived to begin a one-year secondment as deputy chief executive.

The problem of share settlement has been all solved, not simply by an improvement in procedures, but because the trading volumes that were putting the paper-based settlement system under strain before October 19 have dwindled to a trickle.

Long-overdue proposals for computerised central clearing, and for a share depository, are also being examined.

International institutions and major local stockbrokers have insisted for more than a year that these reforms should have been introduced by Mr Li and have blamed slipshod management practice and his idiosyncratic (and autocratic) control of the exchange as major contributors to the loss of international confidence in the local stock market in the wake of the October collapse.

When Mr Li retired as chairman less than a month ago - only to be appointed as vice chairman - he rebutted these criticisms, calling on stock exchange members to defend him from "ignorant and malicious criticism".

His arrest has nothing directly to do with the stock market crash, or the international controversy that surrounded it. The inquiry is understood to have begun in September and is thought to focus on demands made of companies seeking stock exchange listings.

It may be some time before any specific charges are laid, but it is certain that Mr Li continues to see himself as a man unjustly accused and, as a Cantonese fiercely sensitive about matters of honour, the only thing that is clear is that he will not take accusations lying down.

Japanese claim 48% of semiconductor market

BY ALAN CANE IN LONDON

JAPANESE companies claimed 48 per cent of the world market for semiconductors in 1987 with Toshiba Corporation growing substantially faster than the market to take second place to Nippon Electric in the world rankings.

NEC's revenues were \$3.19bn, an increase of 21 per cent over 1986. Toshiba turned over \$2.94bn (up 23.1 per cent) while Hitachi (\$2.78bn, up 20.5 per cent) slipped from second place to third, according to the latest survey by Dataquest, the US market analysis company.

The US companies Motorola and Texas Instruments, with revenues of \$2.45bn and \$2.12bn respectively, were fourth and fifth in the league.

Semiconductor companies fared better in 1987 than they have since the beginning of the slump in the market in 1984. Dataquest says. It estimates that overall semiconductor sales grew 24.3 per cent in 1987 to reach \$38.6bn, up from \$29.4bn in 1986.

South-east Asian companies outside Japan, it says, performed best, growing by 64 per cent though they took only 2 per cent of the market against Japan's 48 per cent, North America's 39 per cent and Europe's 11 per cent.

The Dataquest rankings are in terms of the US dollar which has declined sharply against the Japanese yen and European currencies, which many believe will take an increasingly important role in world electronics. NEC again led the table with Toshiba in second place, Matushita third and the US ASIC pioneer LSI Logic in fourth place.

Table with 4 columns: Company, Rank 1987 (1986), Revenues (\$bn) 1987 (1986), % change. Lists top 10 semiconductor suppliers.

All revenues quoted. Source: Dataquest

NEW INTERNATIONAL BOND ISSUES

Table with 7 columns: Borrowers, Amount m., Maturity, Av. life years, Coupon %, Price, Book runner, Offer yield %. Lists various international bond issues.

Da Shing officials held

BY BOB KING IN TAIPEI

TAIWANESE investigators have detained several officials of Da Shing Stock Brokers, a leading local securities firm, in connection with a probe into a possible illegal stock trading after a client defaulted on loans of US\$26.8m late last month.

Taiwan's Investigation Bureau had by yesterday not filed any charges against officials of Da Shing but said at least four people, including Mr Yeh Hui, Da Shing's president, and Mr Huang Yi-ming, vice-president, were being detained pending investigation of illegal trading.

before Christmas - with the default of Mr Lei Po-jung, a key client known colloquially as Big Boss Lei. The government, fearing a possible collapse of the market should Da Shing be forced into insolvency, persuaded a local bank to extend credit to the brokerage in exchange for \$38.5m worth of shares owned by Mr Lei.

According to Taiwan securities and exchange rules, brokers such as Da Shing are not allowed to provide margin lendings to clients. Exchange operators say, however, that such lendings are common.

Grand Met clear for Martell

BY PAUL BETTS IN PARIS

THE FRENCH authorities are expected to approve a FF9.68bn bid by Grand Metropolitan, the UK drinks group, for Martell, the 272-year-old French cognac house, according to Mr Georges Chavanes, the French minister for commerce, services and craft industries.

Mr Chavanes also indicated at the weekend that the government was likely to block a rival takeover deal for Martell by Seagram, the Canadian drinks group. However, he emphasised that the final decision on the private deal negotiated between

Seagram and the Martell family rested with the French finance and economy ministry.

Mr Chavanes added that the Grand Met bid for Martell was expected to be approved between January 11 and 15. He said he would be meeting Martell's Seagram and Grand Met officials this week to discuss the social implications of the bids.

The minister's statements represent a boost for Grand Met in its efforts to gain the initiative over Seagram in the Martell takeover battle.

Seagram last month agreed in a private transaction to buy a 41 per cent stake in the cognac house owned by the Martell family for about FF1.4bn. The deal would have given the Canadian group control of the cognac house since Seagram had already accumulated a 12 per cent stake in Martell in the stock market.

However, the Paris stock exchange ruled last week that the unusual notarised agreement between Seagram and the Martell family breached French stock market regulations.

Travelling on Business to Athens? Enjoy reading your complimentary copy of the Financial Times when you're staying... at the Hotel Athenaeum, Astir Palace Hotel, Astir Vouliagmenis Hotel, Hotel Grand Bretagne, Hilton Hotel.

WORLD VALUE OF THE POUND

The table below gives the latest available rates of exchange for the pound against various currencies on Monday, December 31, 1987. In some cases the rate is quoted. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

Abbreviations: (A) approximate rate, on direct quotation available; (F) free rate; (P) based on US dollar parities and using sterling-dollar rates; (T) tourist rate; (B) bank rate; (R) buying rate; (M) bankers rate; (C) commercial rate; (S) convertible rate; (N) national rate; (O) exchange certificate rate; (E) non-commercial rate; (M) amount; (A) official rate; (S) selling rate; (C) controlled rate.

Large table with 3 columns: COUNTRY, CURRENCY, VALUE OF £ STERLING. Lists exchange rates for numerous countries including Afghanistan, Albania, Algeria, etc.

State other transfer market controlled. Where one official rate (CF) is shown (2) preferential rate for priority imports such as foodstuffs. (3) Preferential rate for Public Sector Debt and Essential Imports. (4) Preferential rate for Public Sector Debt and Essential Imports. (5) Preferential rate for Public Sector Debt and Essential Imports. (6) Preferential rate for Public Sector Debt and Essential Imports. (7) Preferential rate for Public Sector Debt and Essential Imports. (8) Preferential rate for Public Sector Debt and Essential Imports. (9) Preferential rate for Public Sector Debt and Essential Imports. (10) Preferential rate for Public Sector Debt and Essential Imports. (11) Preferential rate for Public Sector Debt and Essential Imports. (12) Preferential rate for Public Sector Debt and Essential Imports. (13) Preferential rate for Public Sector Debt and Essential Imports. (14) Preferential rate for Public Sector Debt and Essential Imports. 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Advertisement for Emirates featuring a woman in traditional dress holding a sign that says 'Emirates'. Text includes: 'And for businesswomen who aren't just married to their work we offer exactly the same thing. Because travelling abroad continually can put a great strain on a relationship. EVEN Another trip to Dubai, then another and another... But now Emirates have put you in a position to say "You're coming with me." And to think all you have to do is to buy one first or business class return ticket to Dubai, from London. Once you've taken that trip you get a free transferable economy ticket to use on your next. FLIES A return ticket that's valid for twelve months. So, thanks to Emirates (and Dubai's excellent position as far as connecting flights are concerned - a stepping stone ON to India and the Maldives for example) it looks as though a business trip is about to turn into an unexpected holiday for two. Phone 01-930 6356 or contact your local travel agent. Emirates 125 Pall Mall, London SW1

Trade Indemnity EXPORT CREDIT INSURANCE. 01-739 9939.

LONDON RECENT ISSUES

EQUITIES

Table with columns: Name, Price, Change, etc. Lists various equities and their market performance.

FIXED INTEREST STOCKS

Table with columns: Name, Price, Change, etc. Lists fixed interest stocks and their market performance.

RIGHTS OFFERS

Table with columns: Name, Price, Change, etc. Lists rights offers and their market performance.

Remember date usually last day for dealing free of stamp duty. Amounts shown in pence unless otherwise stated.

Unlisted Securities Market and The Third Market

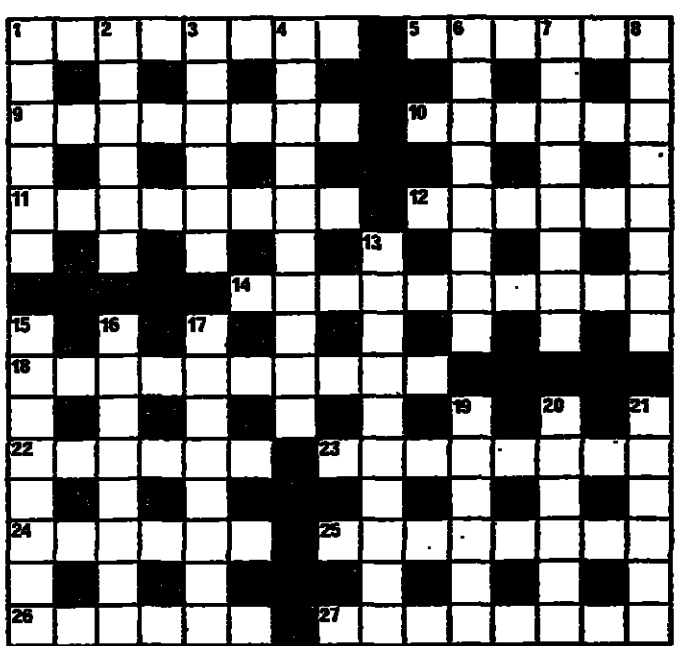
The Financial Times proposes to publish this survey on Wednesday January 27th, 1988 for a full editorial synopsis and details of available advertisement positions, please contact-

Tim Davis on 01 248 8000 ext 4181 or write to him at Financial Times, 10 Cannon Street, London EC4P 4BY

CLASSIFIED ADVERTISEMENT RATES (effective January 1988)

Table with columns: Category, Rate. Lists rates for various advertisement categories like appointments, commercial property, etc.

FT CROSSWORD No.6,520 SET BY TANTALUS



- ACROSS: 1 Relevant facts (8), 2 Agreement to buy drinks or journey's end (6), 3 Water in Germany charged for fish (6), 4 Check mother thanks to family trees (8), 5 Like monarch making a request (6), 6 Way in for transport (8), 7 Aircraft has time to make Earth say (8), 8 Merino sent out when soup is served (10), 9 Ordered to pay those for medical treatment (10), 10 These days, neat arrangement attached to another organ (6), 11 Guess value (8), 12 Cultivated orange for wild ass (6), 13 A pupil posed with Scotsman and dog (8), 14 Home counties appointment is calm (6), 15 Not this, the other dear French worker (8), 16 Down: 1, 15 Worked with stapes at home to provide food (6,8), 2 Agreement to buy drinks or journey's end (6), 3 Scottish poet is Arles for example (6), 4 Busybody gets one high point - that's a redound (10), 5 Determined Eros repaired old instrument (8), 6 Old Exonian rising awkwardly to meet feudal lord (8), 7 ...I knew almost as much as I do now (Johnson) (8), 8 Very old person produces a large bottle (10), 9 See 1 down, 10 Typical flag (8), 11 Old Exonian rising awkwardly to meet feudal lord (8), 12 I'd turn up to give vote for Athenian judge (6), 13 Has rig been made to look showy (8), 14 We hear singer has a few pounds (6)

AUTHORISED UNIT TRUSTS

Large table listing various unit trusts, their managers, and performance metrics. Includes columns for Name, Manager, and other details.

FT UNIT TRUST INFORMATION SERVICE

Main table containing unit trust information, including columns for company names, fund names, and numerical values. Includes sub-sections like 'INSURANCES' and 'UNIT TRUST INFORMATION SERVICE'.

INSURANCES

Table listing insurance companies and their respective unit trusts, including details like 'AA Primary' and 'Allay Life Assurance Co Ltd'.

Main table of unit trusts, organized into columns by company or fund type, listing various investment funds and their performance metrics.

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

Table of FT Unit Trust Information Service, listing various unit trusts with columns for Name, Fund Manager, and other details.

BRITISH FUNDS - Cont'd

Table of British Funds, including sub-sections for 'Stars' (Lives up to Five Years), 'Five to Fifteen Years', 'Over Fifteen Years', 'CORPORATION LOANS', 'COMMONWEALTH & AFRICAN LOANS', and 'LOANS'. Includes columns for Name, Price, and Yield.

FOREIGN BONDS & RAIS

Table of Foreign Bonds & RAIS, listing various international investment vehicles with columns for Name, Price, and Yield.

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

Money Market Trust Funds

Money Market Bank Accounts

LONDON SHARE SERVICE

AMERICANS - Contd

Table listing American companies such as IBM, AT&T, and General Electric with their share prices and market movements.

CANADIANS

Table listing Canadian companies such as Alcan, Inco, and Northern Telecom with their share prices and market movements.

BANKS, HP & LEASING

Table listing financial institutions and leasing companies such as Citicorp, Citicredit, and Finance Trust.

BEERS, WINES & SPIRITS

Table listing beverage companies such as Heineken, Carlsberg, and Heublein.

BUILDING, TIMBER, ROADS

Table listing construction and infrastructure companies such as Bechtel, Fluor, and Parsons.

BUILDING, TIMBER, ROADS - Contd

Continuation of the Building, Timber, and Roads sector table.

CHEMICALS, PLASTICS

Table listing chemical and plastic companies such as Dow Chemical, Eastman Chemical, and Celanese.

DRAPERY AND STORES

Table listing retail and drapery companies such as J. & F. Kennedy, J. & S. B. Jones, and J. & S. B. Jones.

BUILDING, TIMBER, ROADS

Continuation of the Building, Timber, and Roads sector table.

DRAPERY AND STORES - Contd

Continuation of the Drapery and Stores sector table.

ELECTRICALS

Table listing electrical companies such as Balfour Beatty, Balfour Beatty, and Balfour Beatty.

ENGINEERING - Contd

Continuation of the Engineering sector table.

DRAPERY AND STORES

Continuation of the Drapery and Stores sector table.

BUILDING, TIMBER, ROADS

Continuation of the Building, Timber, and Roads sector table.

ENGINEERING - Contd

Continuation of the Engineering sector table.

INDUSTRIALS (Miscel.) - Contd

Continuation of the Industrials (Miscellaneous) sector table.

INDUSTRIALS (Miscel.) - Contd

Continuation of the Industrials (Miscellaneous) sector table.

INDUSTRIALS (Miscel.) - Contd

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Continuation of the Industrials (Miscellaneous) sector table.

INDUSTRIALS (Miscel.) - Contd

Continuation of the Industrials (Miscellaneous) sector table.

LONDON SHARE SERVICE

INSURANCES - Contd. Table listing various insurance companies and their share prices.

LEISURE. Table listing leisure-related companies and their share prices.

MOTORS, AIRCRAFT TRADES. Table listing companies in the motor and aircraft sectors.

Commercial Vehicles. Table listing commercial vehicle companies.

Garages and Motorists. Table listing garage and motorist-related companies.

NEWSPAPERS, PUBLISHERS. Table listing newspaper and publishing companies.

PAPER, PRINTING, ADVERTISING. Table listing paper, printing, and advertising companies.

SHOES AND LEATHER. Table listing shoe and leather companies.

SOUTH AFRICANS. Table listing South African companies.

TEXTILES. Table listing textile companies.

PAPER, PRINTING, ADVERTISING - Contd. Table listing paper, printing, and advertising companies.

PROPERTY. Table listing property-related companies.

TOBACCO. Table listing tobacco companies.

TRUSTS, FINANCE, LAND. Table listing trusts, finance, and land companies.

TRUSTS, FINANCE, LAND - Contd. Table listing trusts, finance, and land companies.

TRUSTS, FINANCE, LAND - Contd. Table listing trusts, finance, and land companies.

TRUSTS, FINANCE, LAND - Contd. Table listing trusts, finance, and land companies.

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TRUSTS, FINANCE, LAND - Contd. Table listing trusts, finance, and land companies.

TEXTILES - Contd. Table listing textile companies.

TRUSTS, FINANCE, LAND - Contd. Table listing trusts, finance, and land companies.

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TRUSTS, FINANCE, LAND - Contd. Table listing trusts, finance, and land companies.

OIL AND GAS - Contd. Table listing oil and gas companies.

OVERSEAS TRADERS. Table listing overseas trading companies.

PLANTATIONS. Table listing plantation companies.

MINES. Table listing mining companies.

MINES - Contd. Table listing mining companies.

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REGIONAL & IRISH STOCKS

Regional and Irish stocks table.

IRISH

Irish stocks table.

TRADITIONAL OPTIONS

Traditional options table.

Additional traditional options table.

NOTES. Text providing additional information and disclaimers regarding the data.

WORLD STOCK MARKETS

Table with columns for country (Austria, France, Italy, Sweden, Switzerland, South Africa), date (December 31), and stock prices for various companies.

Table with columns for country (Japan), date (December 31), and stock prices for various companies.

CANADA

Table with columns for stock name, price, and change. Includes sections for Toronto (Closing prices December 31) and Montreal (Closing prices December 31).

OVER-THE-COUNTER

Table with columns for stock name, price, and change. Includes sections for continued from page 27 and various stock listings.

INDICES

Table with columns for index name, date, and value. Includes sections for New York (Dow Jones) and various international indices.

CANADA

Table with columns for stock name, price, and change. Includes sections for Toronto and Montreal.

NEW YORK ACTIVE STOCKS

Table with columns for stock name, price, and change. Includes sections for Dow Industrial, S & P Industrial, and NYSE.

Have your F.I. hand delivered... at no extra charge, if you work in the business centres of LISBOA & PORTO. Lisboa 887844. And ask Roberto Alves for details.

Advertisement for 'Travelling on Business in Italy?' featuring the Financial Times newspaper and contact information for Diana Majestic in Milan.

Table with columns for stock name, price, and change. Includes sections for Singapore, New York Active Stocks, and various international indices.

Notes: Prices on this page are as quoted on the individual exchanges and are last sale prices. Excludes: 1. Exchange-traded, 2. Exchange-traded, 3. Exchange-traded.

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

Closing prices, December 31

Main table of stock prices with columns for stock name, price, and change. Includes sub-sections for 12 Month High/Low and various stock categories.

Continued on Page 27

NYSE COMPOSITE CLOSING PRICES

AMEX COMPOSITE CLOSING PRICES

Table of NYSE Composite Closing Prices, including columns for stock symbols, prices, and changes. Includes sub-sections like 'Continued from Page 26' and 'U U U'.

Table of AMEX Composite Closing Prices, including columns for stock symbols, prices, and changes. Includes sub-sections like 'D D D', 'E E E', 'F F F', 'G G G', 'H H H', 'I I I', 'J J J', 'K K K', 'L L L', 'M M M', 'N N N', 'O O O', 'P P P', 'Q Q Q', 'R R R', 'S S S', 'T T T', 'U U U', 'V V V', 'W W W', 'X X X', 'Y Y Y', 'Z Z Z'.

OVER-THE-COUNTER Nasdaq national market, closing prices, December 31

Table of Over-the-Counter (Nasdaq) national market closing prices, including columns for stock symbols, prices, and changes. Includes sub-sections like 'A A A', 'B B B', 'C C C', 'D D D', 'E E E', 'F F F', 'G G G', 'H H H', 'I I I', 'J J J', 'K K K', 'L L L', 'M M M', 'N N N', 'O O O', 'P P P', 'Q Q Q', 'R R R', 'S S S', 'T T T', 'U U U', 'V V V', 'W W W', 'X X X', 'Y Y Y', 'Z Z Z'.

Advertisement for Athens (01) 7237167, featuring the text 'Have your F.I. hand delivered...' and 'ATHENS'.

CURRENCIES, MONEY & CAPITAL MARKETS

BASE LENDING RATES

FOREIGN EXCHANGES

Faith evaporates leaving little hope or charity for dollar

BY COLIN MELHAM

FINANCE MINISTERS from the major industrial nations, then known as the Group of Five, met in New York on September 22, 1985 and decided the dollar was too strong. The US currency then began the long decline from levels of around Y240 and DM250.

no willingness to take the necessary steps to cut the Budget deficit. Its fall since late October may now be regarded as a catching up period.

At the start of 1988 this is still the general view. Many economists believe the October US trade deficit of \$17.65bn will prove to be the peak of the present cycle, and that an improvement is now likely as US goods become more competitive and US consumption of foreign goods slackens.

Stockbroker, James Capel, expects the current account deficit in 1988 to shrink to \$13.5bn from \$16.2bn last year, with monthly trade deficits averaging around \$1.7bn, compared with \$1.8bn in 1987.

Other forecasters also see a further weakening of the US currency during 1988, if only because President Reagan will not wish to harm the Republican chances of retaining possession of the White House.

that the party in power suffers if the US voter sees a reduction in disposable income. How far Mr Alan Greenspan, chairman of the Federal Reserve Board, is prepared to go along with this policy is not yet clear, but it is a long time to November.

£ IN NEW YORK

Table with columns: Dec-31, Close, Previous Day. Rows for 1 month, 3 months, 6 months, 12 months.

STERLING INDEX

Table with columns: Dec-31, Previous. Rows for 100, 1100, 200, 300, 400.

CURRENCY RATES

Table with columns: Dec-30, Bank, Special, European, Currency, Rights. Rows for Sterling, US Dollar, Canadian \$, Australian \$, etc.

CURRENCY MOVEMENTS

Table with columns: Dec-30, Bank of England, Margin, Changes. Rows for Sterling, US Dollar, etc.

OTHER CURRENCIES

Table with columns: Dec-31, £, S. Rows for Argentina, Brazil, Canada, etc.

FORWARD RATES AGAINST STERLING

Table with columns: Spot, 1 month, 3 months, 6 months, 12 months. Rows for US Dollar, French Fr., Swiss Fr., etc.

MONEY MARKETS

Uncertainty points to caution

US INTEREST rates rose as UK rates fell during 1987, but against the background of different economic performance the change in rates was not enough to prevent the pound rising against the dollar.

pared to take tougher measures, including raising interest rates, to prevent a further dollar slide? Expectations at present are that the US is not prepared to risk a deep recession, and possibly Wall Street crashing again, with the necessary moves to prop up the currency.

markets or sharp upward pressure on the pound are likely to produce another cut, and the market sees 8 p.c. as the limit on base rates at present.

The threat of overheating remains, although economists are divided on how long strong growth will continue in the UK. This uncertainty is reflected in the money market yield curve, with longer term rates pointing towards 9 p.c. base rates by the middle of the year.

FT LONDON INTERBANK FIXING

Table with columns: Dec-31, 3 months US dollars, 6 months US dollars. Rows for Dec 7%, Dec 7 1/2%, Dec 8%.

BANK OF ENGLAND TREASURY BILL TENDER

Table with columns: Dec-31, Dec-18, Dec-11, Dec-4. Rows for Bills on offer, 3 month, 6 month, 12 month.

WEEKLY CHANGE IN WORLD INTEREST RATES

Table with columns: Dec-31, change. Rows for LONDON, NEW YORK, TOKYO, BRUSSELS, AMSTERDAM.

EMS EUROPEAN CURRENCY UNIT RATES

Table with columns: Dec-31, Close, Previous Day. Rows for Belgium, France, Germany, etc.

POUND SPOT - FORWARD AGAINST THE POUND

Table with columns: Dec-31, Day's spot, Close, One month, Three months, Six months, One year. Rows for US, Canada, Switzerland, etc.

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Table with columns: Dec-31, Day's spot, Close, One month, Three months, Six months, One year. Rows for UK, Ireland, Canada, etc.

EURO-CURRENCY INTEREST RATES

Table with columns: Dec-31, Start, 7 Days, One month, Three months, Six months, One year. Rows for Sterling, US Dollar, etc.

EXCHANGE CROSS RATES

Table with columns: Dec-31, £, S, F, DM, Yen, etc. Rows for Dec 31, Dec 18, Dec 11, Dec 4.

PHILADELPHIA SIX MONTHS US TREASURY BILLS

Table with columns: Dec-31, Close, Previous Day. Rows for Dec 31, Dec 24, Dec 17, Dec 10.

LONDON

Table with columns: Dec-31, Close, Previous Day. Rows for 20 Year 12% National Gilt, 10 Year 10% National Gilt, etc.

CHICAGO

Table with columns: Dec-31, Close, Previous Day. Rows for US Treasury Notes, US Treasury Bills, etc.

NEW YORK

Table with columns: Dec-31, Close, Previous Day. Rows for Treasury Bills and Bonds, Prime Rate, etc.

LONDON MONEY RATES

Table with columns: Dec-31, Overnight, 7 days, One month, Three months, Six months, One year. Rows for Interbank Offer, Prime Rate, etc.

LIFFE LONG GILT FUTURES OPTIONS

Table with columns: Dec-31, Close, Previous Day. Rows for Dec 31, Dec 24, Dec 17, Dec 10.

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Table with columns: Dec-31, Close, Previous Day. Rows for Dec 31, Dec 24, Dec 17, Dec 10.

LIFFE EURO-DOLLAR OPTIONS

Table with columns: Dec-31, Close, Previous Day. Rows for Dec 31, Dec 24, Dec 17, Dec 10.

LIFFE STERLING 625,000 \$ per £

Table with columns: Dec-31, Close, Previous Day. Rows for Dec 31, Dec 24, Dec 17, Dec 10.

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LIFFE FT-SE 100 INDEX FUTURES OPTIONS

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LIFFE EURO-DOLLAR OPTIONS

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Table of BASE LENDING RATES for various banks including HSBC, Citibank, etc.

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Financial Times Conference Organisation. 126 Jermyn Street, London SW1Y 4LU.

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